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ABSTRACT

The 16 essays in this volume address the premise that the success of a college or university related foundation is directly proportional to the strength and quality of its relationship with its host institution. Papers are organized into four sections on: genesis and evolution of institutionally related foundations, their structure and function, critical issues, and perspectives. Papers are: (1) "The Changing Case for Establishing College and University Foundations" (Joseph F. Phelan); (2) "Creating a Successful Institutionally Related Foundation" (Royster C. Hedgepeth); (3) "Growth Patterns of Active Foundations: Lessons for Boards" (Joseph F. Phelan and David T. Shufflebarger); (4) "Starting New or Starting Anew: Organizing with Purpose" (Joseph F. Phelan); (5) "Active Fund-Raising for Active Foundations" (John Lippincott and John K. Martin); (6) "Managing Assets, Part One: The Effective Foundation Investment Committee" (John W. Guy); (7) "Managing Assets, Part Two: Investing and Spending" (David W. Bahlmann); (8) "Capitalizing on the Talents of Foundation Directors" (Anthony R. Kuzneski and Larry R. Panaia); (9) "Funding the Foundation" (Curtis R. Simic and Barbara Coffman); (10) "Building Solid Relationships with the Host Institution" (Thomas R. Popplewell); (11) "The Community College Foundation" (Barbara J. Keener); (12) "The Foundation's Behavior as a Cornerstone of Trust" (Gary A. Ransdell); (13) "Autonomy and Independence: Lessons from the Courts" (Marguerite M. Brown); (14) "The Foundation as an Institutional Resource: A President's View (Thomas C. Meredith); (15) "Fostering Successful Relationships Between Governing Boards and Foundation Boards" (Richard D. Legon); and (16) "At the Horizon and Beyond: Other Issues Worthy of Foundation Board Attention" (David T. Shufflebarger). Appended are results from a 1995 survey of college and university foundations and prototype formats for such items as foundation bylaws and articles of incorporation. (Some essays contain references.) (CH)

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College & University Foundations:

Serving America's Public Higher Education

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Joseph F. Phelan & Associates

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Association of Governing Boards of Universities and Colleges

A Handbook for Members
and Chief Executives of
Foundations and Governing Boards

College & University Foundations:

Serving America's Public Higher Education

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AGB
Association of Governing Boards
of Universities and Colleges

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DEDICATION

This work on college and university foundations is dedicated to Gordon A. Haaland, K. v. R. Dey, Jr., and the late Richard A. Morse,* who stayed the course despite obstreperous seas, and to Diana D. Koski and Emily K. Smith who believed and on the strength of conviction helped build a university foundation from the veritable ground up.

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* deceased 1992

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Foreword

What holds America together? Historian Max Lerner in his *America as a Civilization* (Simon and Schuster, 1957) called attention to the special problem of cohesion that a democracy and so diverse a civilization as ours must continuously address. Alexis De Tocqueville, who first helped us to see ourselves as a nation of joiners and belongers, believed that a democracy cannot function without a common religion and philosophy. In the absence of either, what does hold us together?

Surely volunteerism and philanthropy are part of the answer. These two strong traditions continue to be the bedrock of the genius of our society, imperfect though it is. These traditions are the glue that helps to keep the centrifugal forces of tribalism and group consciousness from spinning out of control. They are the stuff of what makes independent and public higher education work in the United States.

Nowhere do volunteerism and philanthropy come together more powerfully and consequentially than in the boardrooms of colleges and universities. Of the 50,000 trustees who serve on governing boards of all colleges and universities, only about 20 percent, or 10,000, serve on public, tax-supported college and university boards of two-year and four-year institutions, where 80 percent of more than 14 million students are enrolled.

In contrast, conservative estimates suggest that board members of the more than 1,000 foundations serving public colleges and universities total at least 20,000 (assuming an average of 27 members per board). These are men and women volunteers who, like the members of their institutions' governing boards, share a deep commitment to the advancement of their institutions in serving the public good and the public trust. They, too, work to ensure that the academy's financial, physical, and academic program assets are maximized and "held in trust" for future generations—not as agents of state government—but as stewards on behalf of the citizens of their state and nation. In a very real and practical, if not fully legal sense, they also serve the public trust.

Not since the period of student unrest in the 1960s have members of governing boards been in the spotlight as they are today, subject with their chief executives to scrutiny and criticism at every turn. Serving on the governing board of a public college, university, or system carries enormous responsibility, much more than is ever returned in the form of prestige and public recognition. The general public and political leaders do not seem to fully understand or appreciate the nation's unique form of governing higher education. Still, most trustees and regents have learned to find the necessary personal satisfaction in this special calling from within themselves rather than from outside or even inside the institutions they serve.

But what can be said of these other stewards of the public trust—the members of institutionally related foundation boards? They, too, are largely an underappreciated and sometimes misunderstood part of the public college and university. They, too, increasingly are subject to public scrutiny and sometimes harsh criticism. They, too, can accomplish wonderful things to advance the quality and standing of their institutions, yet in an instant of bad judgment, fall from grace in the public eye along with their institutions. They, too, carry large and pressing responsibilities.

While members of governing boards get at least some recognition for their hard work and dedication, the members of foundation boards get even less. They neither seek nor expect it; indeed, they can accomplish much more for their institutions because they can and must be able to function largely outside of the public fishbowl. But with this relative freedom comes especial responsibility to do the right things consistently, to recognize they also must abide by the letter and spirit of laws and regulations, to recognize that their success and effectiveness has everything to do with maintaining the reputation and integrity of their institutions.

Since the Kansas University Endowment Association was founded more than 100 years ago, much has been learned about what distinguishes an effective public college or university foundation from one that is ineffective; a well-led, well-managed, and well-governed foundation from one that is not; a foundation that makes a difference in people's lives from one that is inconsequential. This book is about standards, ethics, benchmarks, sound policies and practices, clarifying expectations, improving communication, strengthening relationships, and much more. It is about strategies for bringing into being a new foundation with the best possible leadership, management, and governance, and for breathing new life into the foundation that is still evolving or otherwise needs to renew itself.

In more than a symbolic way, this book signals the commitment of the Association of Governing Boards of Universities and Colleges to meeting the needs of the members of public college and university foundation boards and their volunteer officers. As we respond to calls for additional publications and in-service education programs and services, AGB strives to be a reliable resource and source of information. As membership among institutionally related foundations continues to grow in the association, we pledge our best efforts to make foundation board members and their chief staff officers feel at home and be an increasingly important part of our work. Please let us hear from you.

Acknowledgments

Very special thanks are due Joseph F. Phelan, the editor and major contributor to this primer, and to Richard D. Legon and Richard J. Novak of the AGB staff. When we sought the most highly respected person in the eyes of foundation executives to undertake this task, it was Joe Phelan's name that kept coming up. It is he who undertook the enormous task of organizing the book, finding and corralling the wonderfully talented authors of its chapters, and designing the national survey whose data make up an important part of the volume.

And it was Rick Legon who provided the executive leadership at AGB to see this project through with Joe Phelan. Rick's enthusiasm never waned from the day he and I first discussed the need for this book. His incredible work ethic and participation is obvious at every step—from raising the necessary funds to support the research this book required and working with leaders of the Council for the Advancement and Support of Education who also support the of work public college and university foundations, to contributing a chapter of his own. As for Rich Novak, director of public sector programs at AGB, his dedication to an effective system of public higher education is apparent; he had a major responsibility for shaping this volume's focus; in the design, analysis, and presentation of the data of the national survey; and in otherwise helping Joe Phelan and Rick Legon get the job done.

We also acknowledge the superb work of Deborah Bongiorno, Ashley Tatum, and Dan Levin of AGB's publications department. Their careful copyediting and preparation of the manuscripts, work with the designer and printer, and much more has produced a volume of which we all can be proud.

Beyond this circle, our appreciate also is due Louis Rabineau, senior fellow of the Academy for Educational Development, for critiquing the entire text of the handbook, and Shari Trinkley, director of major and planned giving at the Indiana University of Pennsylvania foundation, for coordinating the production of Chapter 8, which was written by two volunteer directors of the foundation.

Finally, especial thanks to the organizations that financially supported the research necessary to accomplish this ambitious undertaking: the Common Fund, TIAA-CREF, and the Indiana University Foundation. Their contributions are gratefully acknowledged in full confidence that their leaders will be as pleased with the outcome and the good this resource will bring as are we at the Association of Governing Boards of Universities and Colleges.

And thanks to the many hard-working foundation executives who made the time to participate in the national survey and to the hundreds of foundation board members who directly and indirectly influenced this fine piece of work on their behalf—and for the cause of public higher education.

Richard T. Ingram
President
Association of Governing Boards
of Universities and Colleges
Washington, D.C.
November 1996

Preface

Back in 1988, we referred to it as the "vagaries" paper, even though the word did not make it to the final draft. My associate Diana Koski and I were preparing a position paper on the need for a foundation at the University of New Hampshire. The case was to be carried forward to the university system board of trustees by then university President Gordon A. Haaland and a handful of dedicated and influential alumni. Among them were the president and then chief executive officer of the Liggett Group, K. v. R. Dey, Jr., and a prominent New Hampshire attorney, Richard A. Morse, who earlier had served 12 years as a trustee of the university system—eight as its chair. Our contingent was denied the time-honored foundation-justification argument. That argument is predicated on the possibility that gift and grant funds on hand at a university at the close of each fiscal year will be claimed and administered by the state, or even worse, reverted to the general fund. Remaining balances in New Hampshire's state college and university accounts are not subject to recall at year's end. At the same time, the volunteers and the development staff were convinced, along with President Haaland, of the intrinsic value of a foundation. We collectively believed a university-related foundation was the necessary instrument for generating new levels of private support for the University of New Hampshire. Our challenge was to come up with compelling arguments that would justify yet another organization on the campus.

"Vagaries" supported one of 10 arguments. We reasoned that university administrations would come and go: weak or strong, benign or controversial. The university system governing board might at any given time be happy or unhappy with the university, as well might be the alumni or state news media. But regardless of turmoil or tranquillity on our 200-acre campus, a foundation in its apolitical fashion could go about its work, perhaps not completely unaffected by its surrounding environment, but at least at arm's length from the flash points or wider-based eruptions.

"Vagaries" did not make it to the final draft for two important reasons. First, the word is a bit too harsh when applied to the general demeanor of our institutions of higher learning. Second, we were all too soon to learn that management of proximity is far more important than the luxury of distance when it comes to a foundation effectively serving its host institution. In a public college or university setting, the foundation often is viewed as an enigma. As such, its ability to define, restrict, and manage its role is extremely important to its eventual success. So, too, are the relationships the foundation must establish and maintain with an institution's leadership, its financial officers, and the trustees, who in fact constitute a college's or university's only legally constituted governing body.

Such relationships are not always easily established or maintained. Line and staff charts do not readily accommodate situations where the chief staff officer of an independent foundation also is an officer of the host institution. Similarly, many foundation boards are characterized by people of wealth, power, and influence —people who are accustomed in their daily lives to creating and implementing policy or otherwise stimulating expediency within a particular universe. That characteristic does not always sit easily with many alumni-elected or politically appointed governing board members, who are more attuned to the slower, and oftimes politically driven, pace of change in public higher education. Yet despite this contrast in methodology, the majority of the more than 1,000 institutionally related foundations serve well their host institutions and respective governing bodies. And despite an occasional isolated cry of wrongdoing in the media, most foundations enhance their host institutions in efficient and important ways. Foundations are the wellsprings for significant gifts, increased endowments, and long-term uninterrupted support. Foundations offer influential and committed alumni, and other friends of a college or university who would otherwise be denied, an opportunity to serve in an important and measurably productive capacity. A well-structured and well-run foundation is an asset to any public college or university.

The majority of foundations actively raise money; many raise and manage a great deal of it. Some few control endowments well in excess of $200 million. In creating and sustaining an institutionally related foundation, a college or university essentially confirms its intention to become a serious participant in the broader scope of American philanthropy, to—as capital campaign case statements are wont to proclaim—"go beyond the margin," or "reach the next plateau," or "aspire to new benchmarks of excellence."

This handbook is written principally for those people who serve as directors of college or university foundations. As such, it also should promote among others connected with public higher education an understanding of the place and promise of related foundations. This comprehensive work has as its major premise that the success of a foundation is directly proportional to the strength and quality of its relationships with its host institution and with the host institution's governing body. The corollary premise is that the strength of these relationships is vested in trust. This trust ensures that the foundation's board and staff will honor the prerogatives of the institution. And somewhat conversely, that the institution will work with the foundation to identify reasonable, timely, and attainable (if only with hard reach) fund-raising priorities.

This handbook recognizes and appreciates the fact that the overwhelming majority of institutionally related foundations were organized and have emerged in the absence of uniform guidelines or advice originating with any national oversight organization. Over time, and in addition to the single-campus/single-foundation scenario, public higher education has seen the emergence of multiple-foundation campuses and multiple-campus foundations. So, too, have emerged a few entrepreneurial foundations that not only own and manage patents, properties, and trademarks, but also own, manage, and profit from a host of creative marketing enterprises.

This handbook gives careful and insightful attention to practical matters surrounding foundation governance and management, such as board recruitment, board-as-a-whole functions, and individual board member responsibilities. It offers advice on foundation start-up or reorganization as well as on the successful management of a foundation's resources, including money and people. Additionally, it gives a great deal of attention to necessary and fundamental relationships between a foundation and its host institution as well as to other important relationships with internal and external constituencies.

Part One examines the emergence of institutionally related foundations and the evolving rationale for creating, nurturing, and sustaining foundations. It also covers the financial growth patterns of very successful, "active" foundations: those in the business of raising money as well as investing and allocating it. Special mention is made of established foundations, originally somewhat "passive" in nature, that have decided to reorganize, re-energize and participate in the active pursuit of private support. Although the terms "active" and "passive" are not intended to be pejorative, the handbook concerns itself almost exclusively with foundations that actively generate support for colleges and universities.

Part Two explores foundation organization and management, including the size and nature of effective foundation boards of directors, the roles of volunteers and staff in bringing a foundation to life, the efficacy of long-range and short-term planning, the nature and nuances of fund-raising, the proper management of secured assets, and the exercise of stewardship for gifts received and dispersed.

Part Three examines issues critical to the long-term success of an active foundation. The roles of foundation directors are covered in great detail, especially as volunteers perform on committees, otherwise govern foundation operations, and participate in the foundation's principal activities. The nearly always contentious issue of funding fund-raising also receives attention, and practical suggestions are made for securing operations income within reasonable and rational boundaries. Finally, this section acknowledges the reality that while good intentions, trust, and general goodwill may be viewed as the hallmarks of productive relationships between foundations and the institutions they serve, the "handshake over the fence" should be augmented by something in writing—specifically, a formal operating agreement describing the mutually supportive responsibilities of each entity.

Part Four presents six special perspectives on college and university foundations. The first focuses on community college foundations, which in fact represent the majority of institutionally related foundations across the nation. The second and third examine the behavior of foundations in terms of state and federal "disclosure" statutes and the consequences of taking too seriously an aura of foundation immunity from scrutiny or accountability. The fourth looks at a foundation through the eyes of a university president. The fifth describes the dichotomy that clarifies the relationship between institution and system governing boards and institutionally related foundations. The final chapter in this section and the book as a whole, catalogues a series of issues that will be relevant to foundation operations and foundation board attention into the next century.

This handbook is practical in nature, drawing much of its content from the testimony provided by nearly 500 college and university foundation officers who responded to a 1995 survey undertaken by the Association of Governing Boards of Universities and Colleges. The survey results appear in Appendix A. Appendix B features a number of exhibits that should prove helpful to anyone concerned with the successful performance of a related foundation.

Principally, however, beyond the "how to" inclusions, the handbook seeks to promote a foundation board member's understanding of and appreciation for the complementary missions and laudatory goals of governing boards, foundation boards, college and university officials, and foundation staffs. That foundation that serves its host institution best accepts the fact that its primary role is to serve. The interests of the foundation are best served by enthusiastic and focused volunteer directors and a host institution and governing board that are sympathetic toward the foundation's aims, supportive of its programs and practices—and, hopefully, its budget—and appreciative of its successes.

A discussion of foundations requires some standardization of terminology. The term trustee, for instance, is often applied to foundation board members as well as to people serving on college and university governing boards. For purposes of this handbook, the term trustee is reserved for governing board members. Foundation board members usually are identified as directors. Also throughout public higher education—especially in system situations—the terms president and chancellor are used interchangeably. In one setting, the chancellor will oversee the system and the presidents will head the component colleges and universities. In another, the president will lead the system and the chancellors will preside on the campuses. For purposes of this work, college and university leaders are identified as presidents; system leaders as chancellors. Throughout, the term chief executive officer is avoided when referring to academic leaders. This concession is made in light of the resistance of faculty and others to the use of "bottom-line" terminology in describing activities germane to higher education. So, too, but for a different reason, is chief executive officer avoided in identifying the staff leaders of related foundations. The title held by such leaders—president, executive director, executive vice president, executive secretary, or some other—is usually a product of the campus environment or the political realities of a given institution and its leadership. In the handbook, foundation leaders usually are identified generically as chief staff officers.

This volume's principal use, as anticipated by its contributing authors and editor, is as a reference work as opposed to an ongoing read. Those people with sufficient interest to treat the book as a cover-to-cover exercise will note a small but certain level of redundancy. While occasional repetitiveness might suggest a casual or inattentive approach to editing, the inclusion of similar or even identical points of view is wholly intentional. Consensus on a particular point of view helps encourage a standard for the behavior and place of foundations in the higher education community. Divergent points of view on matters (such as foundation grants for salary supplements for college and university presidents, and others) also provide a basis for introspection and discussion. And just as points of view have been preserved, every effort was made in the editing process to accommodate variations in the personalities and syntax of the sixteen contributing authors. At the same time, the editor applied a few personal preferences in the matter of style. In the aggregate, the fundamental purpose of the handbook is, we collectively believe, honored: to provide, for the very first time, comprehensive and authoritative knowledge and supporting information on college and university foundations and the manner by which such foundations, through the management of proximities, the fostering of positive and productive relationships, and the stimulation of unprecedented private support, best serve America's public higher education.

Joseph F. Phelan
November 1996

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David T. Shufflebarger (Chapters 3 and 16) joined Alexander O'Neill Haas & Martin, Inc. in Atlanta as a senior consultant in 1994 after 25 years in advancement with Old Dominion University (Norfolk, Va.), Valdosta State University (Georgia), and Virginia Military Institute (Lexington). He served as executive vice president of the ODU and VSU foundations and as the institutions' chief advancement officer. He is an active participant in higher education conferences and is a past member of the board of directors of the Georgia Planned Giving Council and chair of its ethics committee.

Curtis R. Simic (Chapter 9) is the president of the Indiana University Foundation, a position he has held since July 1988. Simic has more than 30 years of experience in university development and administration in both public and independent institutions, including the University of Tennessee Center for the Health Sciences, Yale University School of Medicine and the Yale-New Haven Medical Center, University of Alabama, University of Oregon, and University of California, Berkeley Foundation. He is active in the Council for Advancement and Support of Education (CASE) and the Society of Institutionally Related Foundations.

Section I: Genesis and Evolution

CHAPTER 1

The Changing Case for Establishing College and University Foundations

Joseph F. Phelan

CHAPTER 2

Creating a Successful Institutionally Related Foundation

Royster C. Hedgepeth

CHAPTER 3

Growth Patterns of Active Foundations: Lessons for Boards

Joseph F. Phelan and David T. Shufflebarger

CHAPTER 1

The Changing Case for Establishing College and University Foundations

Joseph F. Phelan

On the last day of October 1891, "at a meeting of those interested," 12 gentlemen sat down together in the law offices of Gleed and Gleed in Topeka, Kansas, and created the Kansas University Endowment Association. J. W. Gleed nominated the university's chancellor, Francis H. Snow as president; Charles S. Gleed as secretary; and R. K. Moody as treasurer—each to serve "until they should be replaced by the Board of Directors."[1] The membership of the initial board would number 15, 11 of whom were residents of Kansas, and one each from Boston, New York, Chicago, and Kansas City, Missouri. The association's bylaws—a model of refreshing simplicity, encompassing six articles on two sheets of paper—admonished these board members and their elected officers to "perform the usual duties pertaining to their offices." Here, then, a dozen men in the fall of 1891 "perfected" an organization that would become over the next 100 years the fundamental prototype for more than 1,000 college and university foundations throughout the United States.

Two related events served as the catalyst for the October meeting. The first was an offer from the first governor of Kansas, Charles Robinson, to make available to the university a parcel of land at half its assessed value of $2,500. The second was the university's desire to purchase the land with an earlier cash gift directed to the university. While this transaction appears simple and straightforward, Kansas state law could not accommodate it. The state constitution required that all gifts made to state institutions be placed in a state-held general fund. The interest income yielded from the investment of the funds would then be used to benefit the state's universities. This legislation, though well-intentioned, was clearly incompatible with the opportunity at hand. Governor Robinson, Chancellor Snow, and friends decided to create and charter an entity "for the purpose of receiving, managing, and administering money and other gifts for the use and benefit of the University of Kansas."

The decision proved sound, for in the course of the ensuing 100 years, gifts to the Kansas University Endowment Association (KUEA) would help to provide "86 percent of [Kansas University's] land; 61 percent of its buildings; 135 professorship funds; 1,092 named scholarship funds; and the acquisition of scientific equipment, library books, and works of art—all totaling $401.5 million in direct support of University of Kansas programs, faculty, and students." [2]

The association's most dramatic growth period follows the entry in this century of public college and universities into serious, structured fund-raising programs. In the mid-1960s, KUEA provided $3.7 million in support of university programs and projects. Twenty-five years later in 1991, annual support directed to the university exceeded $33 million. Today, the association's endowment stands at just over $385 million—eighth among public colleges and universities nationwide. As of 1995, the total benefit to the university in terms of direct support since the foundation's inception was $561,283,969.

The success of the Kansas University Endowment Association suggests that other public colleges and universities should consider this model or some variation of it as the fulcrum for serious fund-raising or, more euphemistically, "development" efforts. Indeed, some 1,300 have, and in some contrast to the KUEA, the majority serve smaller, state-supported institutions, including community colleges. The latter colleges often fall under legislative strictures far more limiting than those faced by larger, four-year counterparts. For example, if a community college is prohibited from owning property, land given for the college may have to be owned and managed by a foundation. Other single-purpose foundations may have to be created to own and operate dormitories, book stores, or cafeterias. But the wide majority of college and university foundations are active in raising money and in procuring other assets that support their respective host institutions. And these institutionally related foundations raise and control a considerable amount of cash and other assets, measured collectively in the billions of dollars. The benefits of creating a foundation are numerous and substantial.

Building the Case for a Foundation

The allocation and use of public dollars control the barometer of public trust. No specter raises greater ire among citizens than the perception or reality that dollars earned in the workplace and subsequently surrendered as taxes to various governmental units have been squandered, mismanaged, or lost. Nothing discredits the American political process more than a prevailing belief that governmental budgets are inflated, bureaucratic staffs are bloated and over-compensated, and funded projects are "make-work" or empty public-relations shells. Common sense alone dictates that dollars placed in the public trust should be subject to certain safeguards that at once inspire public confidence and discourage public skepticism. Such safeguards exist. And while their application at the federal level may be less visible, dependable, or enforceable, state governments and their corresponding interests and agencies have adopted policies and practices designed to assure the voting publics that tax dollars and other public revenues are used wisely.

The practical application of such policies often requires that short-term and longer term investment strategies be characterized by low return at minimal risk. Such treatment often mandates that subsidiaries of the state not own property or become involved with enterprises with potential for future encumbrances on the state treasury. It dictates that nontax dollars, when commingled with tax dollars, take on the characteristics of the tax dollars, rather than the reverse, and therefore become subject to the same scrutiny and treatment. And many states require that unspent dollars in any division, department, or agency be returned at the close of the state's fiscal year to the state treasury for future reallocation.

Few people dispute the obvious wisdom of such policies. However, these fiscal safeguards also pose one detrimental effect on public colleges and universities that could not have been readily anticipated. At the time of the Morrill Act, the valid assumption was that public higher education is provided substantially as an expense to the state. Thus, various state-supported colleges and universities became subject to the laws governing all state entities. Perhaps no one foresaw that these state institutions would engender loyalties and affection from alumni and others more common to the more prestigious private institutions, and in so doing, would become objects of substantial personal philanthropy. Similarly, perhaps no one anticipated that the research and resulting new knowledge emanating from these institutions would be of significant societal and scientific interest to the nation's corporations and foundations, thereby positioning the institutions for receiving financial support from these entities. Also, perhaps no one considered that charitable gifts and grants directed to these public institutions could be designed to enhance rather than simply sustain a state's estimation of affordable quality. Finally, perhaps no one realized that reasonable laws designed to inspire the public's confidence in fiscal matters also could inhibit the great American phenomenon of voluntary private support from becoming integral to another enviable, national phenomenon: publicly supported higher education. No one overtly and effectively addressed these possibilities, opportunities, and ironies until the dozen volunteers did so in Kansas near the close of the 19th century.

The enlightened cadre at the University of Kansas perhaps did not itself foresee that their innovation eventually would intersect widely and nationally with the increasing popularity of state colleges and universities as objects of philanthropy. Nor might they have foreseen that the "passive repository" they created for bequests and other self-motivated gifts would become—on their own campus and on hundreds of others—the linchpin for earnest and determined fund-raising activity. But both eventualities came to pass, and today the college and university foundation is considered for many campuses almost fundamental to the conduct of a public institution's fund-raising program.

Such success today is, however, only distantly related to the question of state laws and resulting policies. Over time, host institutions have realized that the true value of a related foundation may be measured as the bud is to the blossom. The first instance represents potential; the second often delivers astounding results. Today, that potential is expressed by such people as Ronald Eaglin, president of Morehead State University in Kentucky, who in the fall of 1994 said: "If our foundation is to continue to be a part of our campus community, I fully expect it to undertake a visible, dynamic, and successful role in bringing significant private support to our university." On many such campuses, the results from activating a passive, banking-type foundation emulate the performance of foundations that were organized as fund-raising entities from the start.

The several positive motivations for creating and sustaining a fund-raising foundation stand in contrast to the single, negative principle voiced clearly by Elizabeth Miller Watkins in advance of her 1939 gift of 25,000 acres of Kansas farmland to the KUEA: "It is my wish to make a gift to the university, not to the state, and so increase its efficiency."[3] But in fairness to Mrs. Watkins, in the same text she voiced the positive motivation for her benevolent action. She expressed her hope that by her gift, "other individuals might be encouraged to make gifts to the university."

Close to a dozen *additional* reasons exist for today's public college or university to consider creating or retaining an institutionally related foundation. Effective foundations—

- **Involve Influential Citizens**. Chief among the reasons for creating an institutionally related foundation is the opportunity to involve people of influence, intelligence, and means in enhancing the quality of the institution and supporting its future. This involvement is, appropriately, apart from the sphere of policymaking and the other prerogatives that rest with the institution's governing board. This new-found volunteer power and energy is contained and directed toward providing the resources needed to enhance the institution and its programs: endowment for professorships and faculty chairs, scholarships, seed support for innovative special programs and projects, impetus for funding capital construction projects, and heightened awareness of the validity of private support for public education.
- **Provide Service Opportunities for Alumni**. In many instances, the existence of a foundation is the only forum in which successful alumni and friends of an institution may serve meaningfully. The memberships of boards of regents, boards of trustees, boards of system trustees, and other college and university governing board configurations are—for the most part—products of political appointments, popular alumni-based election, and *ex officio* status. Such governing boards are, therefore, generally provincial, and by nature tend to limit or exclude the participation of people beyond a state's borders. Personal success, however, and love of one's alma mater know no such boundaries. In contrast to trustees of independent

schools and colleges who by virtue of appointment or election accept a role in providing and securing private support for an institution, publicly appointed trustees do not share a similar responsibility, beyond their own personal philanthropic interests. The foundation volunteer has no other.

Foundations also offer the volunteer an opportunity to accept a position of some stature in the university community. The prototypical foundation board member likely will have achieved some personal and professional status and is therefore accustomed to serving on boards as opposed to advisory committees or any other of the countless committees with all of the limits of influence such assignments imply. The foundation, unlike its host institution, may function in a more businesslike manner, thereby providing another comfortable environment for the volunteer board member. The goals and objectives of a foundation are quantitative for the most part, measurable in terms of performance. Bottom-line evaluations—"how much did we raise, and how much did it cost to raise it?"—are not viewed by foundation people as bourgeois, insensitive measures of accomplishment.

- **Add Value to the Institution**. Members of a foundation board bring added value to an institution. In agreeing to help pursue the foundation's mission, stated most directly as securing support from others, each foundation board member—if properly recruited—will realize that success in that endeavor largely depends on personal example. At the University of New Hampshire, for example, in 1989 the combined annual philanthropy of soon-to-be foundation directors totaled $52,435. By 1993, the directors' total had grown to $781,414; by the spring of 1996, six and one-half years after the foundation's inception, the directors as a group had contributed $7.18 million to various university programs and projects. The foundation board adds value in another way as well. In terms of institutional prestige, the board is a showcase of successful and prominent alumni—and non-alumni—who have chosen to align themselves with the vision and goals of the institution.
- **Provide Gift Oversight**. A foundation benefits its host institution by its very existence. The specter of state interference with the intended outcome of charitable giving, whether founded in myth, partial reality, or vague historical memory, still haunts some would-be major donors. Some are reluctant to place with a state agency or institution any dollars that might

be "tainted" by too close an association with tax dollars. Some worry that a gift's intentions might be diluted or lost in the giant cauldron of internal accounts. Others believe that a beleaguered legislature or governor might offset a major gift to an institution by a corresponding reduction in state support. With a foundation in place, donors can be reassured that the oversight for a gift will be provided by reasonably independent, dedicated volunteers who have an affection for the institution and a respect for the benefactor and the purpose of a gift.

- **Signify Commitment to Pursuit of Private Support**. The foundation serves as an icon of the institution's serious intention to pursue private support. The very word "foundation" implies permanency and strength. The action of the institution's governing board in permitting the use of the college or university name in the foundation's title implies endorsement of the concept and approval of its purpose. Also, a foundation more readily positions an institution for the occasional "mega-event" of fund-raising, the capital campaign. Once a decision is made by an institution to become involved in this five-year (or more) venture and the governing board has given its blessing to the exercise, the volunteer nucleus required for success is already in place in the form of the foundation board.
- **Control the Growth of Fund-Raising Expense**. Whether in a campaign environment or not, a foundation helps control the increasing cost of fund-raising. The assertion, sometimes made, that a foundation actually can reduce the cost of fund-raising for a college or university might be viewed for two reasons as somewhat specious. First, a decision to augment the existing development program with a full-time planned-giving officer, two major-gift officers, and the necessary support staff, will increase fund-raising costs dramatically. Second, foundation executives tend to measure expense against total dollars raised, including the value of deferred gifts that won't accrue to the benefit of the institution for many years. That is, the in-house calculated cost of raising a dollar might drop from 22 cents to 16 cents at the same time that the fund-raising budget is increased by 40 percent. Foundations, however, for the most part are expected to find means to cover a portion of annual operating expense—and, in extreme examples, all of it. Foundations do so in a variety of legitimate ways, a few of which might prove impossible or unacceptable in a public college- or university-run development program.

- **Attract Gifts of Unrestricted Funds**. The foundation, through either the largess of its directors or through savvy acquisition and investment strategies, is often a source of the most coveted type of revenue for the public institution: unrestricted funds. Such funds are especially attractive to the college or university president who wishes to recognize and reward outstanding teaching; allow a faculty member to present a paper or other scholarly dissertation at a distant but important conference or seminar; support a faculty or student project outside the mainstream of conventional funding; help with the publication of a scholarly but obscure journal; or improve, to an appropriate extent, the sometimes Spartan trappings and social privileges of the office of the presidency.
- **Assume Higher Risks and Benefits in Investing**. In accepting the fiduciary responsibility for the effective management of other people's former assets and fortunes, foundations have a decided advantage over public institutions undertaking the management of funds and endowments. A foundation board can, in following the advice of its investment committee, be more liberal in deciding the segmentation of its investment portfolio. Through its investment allocation policy, it may assume a risk level greater than that permitted by the constraints placed on governing boards. Foundations may accept gifts of privately held stock, may hold such stocks for many years, and then may elect to sell the shares to a willing buyer at a substantially increased value. Similarly, foundations may hold publicly traded shares for indefinite periods, accept gifts of real estate on speculation of increasing value for subsequent sale, and encourage and accept unique deferred gifts such as charitable remainder trusts and gift annuities that can provide income to the donor and eventually, assets to the foundation.
- **Turn Down Unwanted Gifts**. Conversely, a foundation may protect an institution from the bane of the college development office: the unwanted gift. Not all gifts are offered in the spirit of heartfelt charitable outpouring. In the sometimes politically charged atmosphere of the institution itself, the college president might feel pressured for whatever reason to accept a used car, a lame horse, a wooden boat, or real estate that comes with hidden or apparent environmental liabilities. The foundation, on the advice of its committee on gift review and acceptance, may reject such offers as not being in the best interests of either the institution or its foundation. The institution's president

usually is spared the embarrassment or consequences of doing so. The foundation's leadership is unlikely to be either coerced into accepting a gift or intimidated by an adverse reaction to rejecting it.

- **Ensure Continuity of Function through Separation**. Contrary to the occasional reports in the news media, adversity and controversy are not common to institutionally related foundations. In fact, a foundation often is seen as a tranquil harbor in times of institutional travail. Popular and less-than-popular administrations come and go. Faculty and students may at times irritate or offend the external citizenry with controversial stands or questionable behavior. The foundation, though not isolated totally from a political tempest, remains in these times apart from the controversy and simply goes about its business: the pursuit of private support.
- **Ensure Proper Management of Contributions**. The successful pursuit of philanthropy signals still another important benefit of the existence of a foundation: proper management, allocation, and acknowledgment of significant contributions. In public colleges and universities, gift accounts usually number in the hundreds, often in the thousands. Such accounts often are viewed by the institution's office of finance as sideline activities or even nuisance work. Numerous accounts require careful record keeping, and their resulting annual income must be distributed, even if the income is quite small. As a result, debilitating flaws may develop in end-line development activities, including failure to confirm that distributions have been made to purpose (if at all), failure to confirm that distributions made have been used appropriately and in a timely fashion, and failure to notify interested and affected parties—including donors—that the intended purpose of the original gift is being served. Nothing causes an institution greater embarrassment than this scenario: The somewhat agitated relatives of a loved one in whose memory a scholarship was endowed arrive at the development office to determine the name of the scholarship recipient—only to discover that, even though funds were earned and available, no award ever has been made. Because foundations are responsible for keeping proper track of such activities, this all too common episode need not occur—or recur. Gift solicitation, assets investment and management, and gift allocation and tracking represent the comprehensive activities of a well-run foundation. Successful foundation volunteers and

staff well know that the sound management of a first significant gift is often the catalyst for a second. Donor satisfaction with the outcome of a benchmark gift is often the harbinger for further personal gift planning—which might well include substantial life-income gift arrangements and noteworthy testamentary provisions. Gift and fund management in a foundation is not a sideline activity, but is rather a mainline responsibility.

Caveats in the Equation

An institutionally related foundation is of great potential benefit to a public college or university. But as warm, sunny, and dry weather is viewed as a great asset by the office of tourism, the same conditions cause great concern for the state fire marshall. The creation of a foundation brings with it the potential for conflagrations. Recent court actions in Ohio, West Virginia, Michigan, Indiana, and South Carolina, have—regardless of the outcomes—placed college and university foundations in an unfavorable light through charges of mismanagement, violation of "right-to-know" legislation and "sunshine" laws, and the misappropriation of gift revenues.

From an institutional perspective, the foundation is a hybrid—not necessarily under the total control of its host, but certainly, in most instances, dependent on it for survival. As a foundation grows and prospers, the funds it manages increase sometimes geometrically—a blessing for the foundation, a bane for the institution's chief financial officer who is responsible for managing the institution's resources, except for the millions of foundation managed dollars beyond reach.

The foundation itself does not sit easily within the blocks of the higher education pyramid. At times it is a loose and irritating stone. Line and staff charts, the road maps of bureaucracy, become distorted when foundation staff are drawn in. Compensation guidelines may differ. Benefit packages and other perks may not correlate with those of the institution. Within the hierarchy of the institution, the chief staff officer of the related foundation is something of a stepchild, hopefully not a raucous one. More often than not, the foundation officer also is an officer of the college or university and in that role reports to the president. In the foundation role, this officer is responsible to the chair of a foundation's board of directors.

In their zeal to preserve independence and autonomy, foundations at times seem to work in secrecy, and therefore can be misunderstood or held in suspicion by faculty, students, and members of the administration. Foundations are authorized to enact policy apart from policies of the institution's governing board; in these and other actions, foundation boards and officers do not always behave appropriately in "the performance of their usual offices." The greatest potential firebrand is vested in the fact that the foundation and host institution are run by and for people. Amos Orcutt, executive vice president of the University of Maine Foundation and past president of the Society of Institutionally Related Foundations (SIRF), noted in addressing the opening session of a 1994 conference sponsored by SIRF, the Council for Advancement and Support of Education (CASE), and the Association of Governing Boards (AGB) that his foundation had endured problems that "were generally confined to lack of communication, personalities, and territorialism."[4] Such problems clearly are people-related.

Foundation boards may take the notion of independence too seriously and literally and may try to exert undue influence on the institution, including the president's length of service. The boards may decide to make gifts and grants to members of the campus that are totally inconsistent with the funding priorities of the institution. Individual foundation directors may conclude that a pet project is more important than endowing a chair to attract a highly qualified, high-profile professor. Foundation boards may try to "punish" the administration or the campus for acts real or imagined by withholding gifts, grants, and endowment income. Presidents, on the other hand, may view the foundation board members as more flexible, influential, and enlightened than the governing board. In these cases, the president may be tempted to use the foundation board as a kitchen cabinet, shadow governing board, or policy advocate.

Some college and university presidents have been known to abuse unrestricted gifts and discretionary funds. For example, unrestricted funds that are given directly to the institution's president might be used for questionable (sometimes illegal) expenditures or as underreported income on the misguided and often erroneous theory that (1) the transactions will not appear in the college's annual audit, and (2) the foundation's books are immune to public inspection. Funds given to the president in good faith and used for legitimate purposes, such as a modest entertainment account or an upgrade for a bottom-of-the-line automobile, even if reported out publicly, remain subject to the eye of the beholder. ("Foundation Funds Buy Booze and Cars" is a debilitating headline.) Similarly, the use of foundation funds to augment a president's salary often raises questions with the news media, members of the campus community, and the public. Additionally, some presidents have requested their foundations to underwrite a disproportionate number of exclusive club memberships or social and political activities unrelated in any provable way to the institution. Presidents, in the purest of circumstances, may resist providing documentation to a foundation subordinate to justify a Wednesday afternoon foursome at a country club. The president may resent the fact that the subordinate officer might hold the title of "president" in the foundation and may treat the officer accordingly. Conversely, from time to time, the foundation chief executive officer may forget that identical titles surely are not commensurate in stature.

Given that a foundation is not prerequisite to a public college or university's capacity to raise and accept private support, why would an institution's or system's governing board welcome or endorse such an entity or authorize its use of education and general funds, facilities, and institutional personnel? The quick answer is that, as is true in so many media-worthy "scandals," the cacophony surrounding the alleged misdeeds of a few overwhelms the quiet, determined, and impressive accomplishments of many. The majority of foundations, subject only to matters of maturity and scale, emulate the success of the Kansas University Endowment Association.

A more thoughtful answer is that reasonable people, with the best interests of a host institution in mind, can—with open communication, cross-representation, mutual respect for prerogatives and comprehensive operating agreements—create and sustain an entity that stimulates unprecedented private support for a public institution of any size.

The most compelling answer is that college and university foundations, under the best supportive conditions, can be tremendous assets in times of tight budgets and in terms of the characteristics that separate one institution from another in quality and attractiveness. Simply put, foundations can do it better. Foundations exist only to serve the respective institutions. Orcutt notes that a foundation should be "a creature of comfort for the convenience of the university, but at the same time is a trustee with fiduciary responsibilities, seeing that each donor's intentions are being carried out."[5] This dual nature of service, therefore, is compatible with the very best interests of both the institution and its leadership, including the governing board of trustees. The boards of regents or trustees may take additional heart in knowing that a foundation is one of the few entities on the campus that must demonstrate its worth every single year and, of even greater importance, it has the measurable capacity to do so. ■

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[1] Gleed, J.W., et. al., Bylaws of the Kansas University Endowment Association, October 31, 1891, p. 1.

[2] Scarffe, J.A., editor, *From Vision to Reality: 100 Years of Private Support Through the Kansas University Endowment Association*, 1991, p.4.

[4] Grisson, Amelia, "Nation's Oldest State University Related Foundation Celebrates Its Centennial," news release from the Office of Communications, University of Kansas, Oct. 21, 1991.

[4] Orcutt, Amos E., "Why Have a Foundation?," opening session address of the SIRF/CASE/AGB Conference, Hyatt Regency Hotel, Indianapolis, Ind., May 18, 1994.

[5] Ibid.

CHAPTER 2

Creating a Successful Institutionally Related Foundation

Royster C. Hedgepeth

Public colleges and universities establish institutionally related foundations for quite practical reasons. Some early foundations were created to buy and hold property that was important to the institution but which would not be on the market long enough to acquire through the state appropriations process. Others were set up to preserve the arm's-length relationship between private gifts and state treasuries—particularly endowment gifts. Those early roles have changed dramatically as public colleges and universities rushed to set up foundations in the past 20 years. Institutionally related foundations now are running major campaigns, engaging in comprehensive institutional fund-raising, and managing property and large endowments. Many employ large staffs and have operating budgets of millions of dollars. Yet these foundations appear to follow no agenda for systematic development. Consequently, their composition and organizational structures vary widely. As a result, when other institutions seek a foundation model to emulate, the question often arises: "Do universal rules exist for creating a successful institutionally related foundation?"

The general answer is no. However, creating a successful institutionally related foundation is a matter of establishing intentional actions, consciously selecting appropriate functions for them, and defining their scope and complexity. While common elements contributing to success can be identified, how those elements are applied is up to individual institutions. The conceptual framework presented here identifies some common elements and suggests a paradigm, or standard, for application. As such, the framework is a guide either to developing a new public college or university foundation or assessing the effectiveness of an existing organization and adjusting it, if necessary.

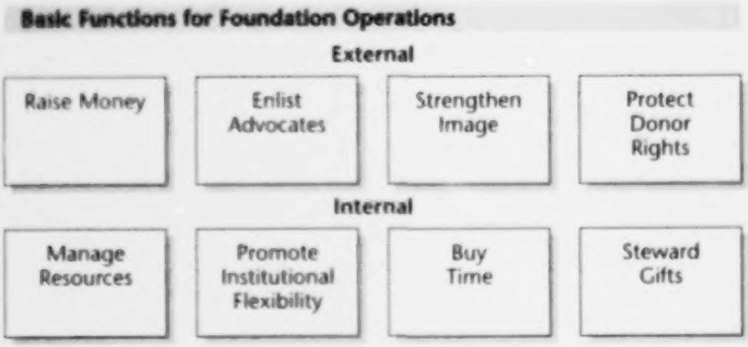
Dual Missions

Like the Roman god Janus, the institutionally related foundation's mission faces two ways. Looking outward, the foundation may raise money, enlist advocates, strengthen the institution's image, and ensure the rights of donors. Looking inward to the institution, the foundation may provide resources to enhance excellence, create flexibility, buy time, and oversee private resources.

Foundations may serve other specialized needs for an institution, but the eight functions illustrated in Figure 1 constitute an array that defines 90 percent or more of a successful foundation's activity. Simply stated, if a foundation activity does not contribute to the fulfillment of one of these eight functions, the question should be raised as to whether the activity should be undertaken.

Defining these terms clearly and having discrete measures of performance for each is important. First, however, institution offi-

Figure 1


Basic Functions for Foundation Operations
External
Raise Money
Enlist Advocates
Strengthen Image
Protect Donor Rights
Internal
Manage Resources
Promote Institutional Flexibility
Buy Time
Steward Gifts

cials should determine (1) which of these functions the foundation should incorporate, and (2) to what extent.

Service Definitions at the Extremes

The functions of an institutionally related foundation's operations should be viewed as a continuum. At the simplest end of the continuum are foundations that serve a single purpose. Typically, they focus on one or more internal functions by acting rather passively as a bank—receiving, dispersing, managing, and accounting for private funds. These functions are necessary, valuable, and laudatory. A foundation operating at this level does not raise money, makes only minimal use of volunteers, has a nominal effect on the institution's image, and responds almost exclusively to the institution's agenda with respect to priorities and timing. The foundation that acts passively has the advantages of keeping costs to a minimum and simplifying gift management and fund transfers. However, the simple structure may make maintaining autonomy or presumed independence difficult and the use of numbers of volunteers improbable.

At the complex end of the continuum are virtually independent, self-sufficient foundations that carry out internal and external philanthropic agenda for the institution. These foundations actively raise money, including implementing major capital fund-raising efforts on behalf of the institution. They also provide extensive avenues for the use of volunteers, contribute directly to the institution's public-relations efforts, and are integrally involved in developing institutional priorities for private support while providing a full range of financial and donor services. These comprehensive foundations also consolidate the management of fund-raising programs, thus realizing significant economies of scale in broad-based fund-raising efforts. Such a comprehensive public-institution foundation runs the risk, however, of developing a level of autonomy that isolates it from the institution's priorities and academic and student leadership.

Institutionally related foundations occupying the extremes are, perhaps, more the exception than the rule. Of the 47 institutions that responded to a November 1995 survey of the 100 largest college and university foundations, 12 classified themselves as totally independent of the host institution. At the other extreme, nine indicated being *organized* as essentially passive, banking-type foundations, but over time, had *evolved* into active, fund-raising foundations. Most foundations incorporate a mix of functions into their activities. To maximize effectiveness, institutionally related foundation leaders should, with the institution and governing board leadership, select the functions the foundation will perform. That is, the foundation leaders themselves should take an active, conscious, and conscientious role in determining their functions and the manner in which they will be implemented.

Determinants of Function

There are five factors that determine where on the continuum the foundation will operate—that is, the degree of simplicity or complexity of its mission and operations. They are budget and funding, institutional history, legislative definition, governing board policies, and the need for autonomy. Figure 2 positions these determinants as a set of filters through which each function should be passed to determine if it should be a foundation function or an institution function.

1. Budget and Funding

Of the forces that have shaped institutionally related foundations, perhaps none is more influential than the sources of revenue that fund foundation operating budgets. By the late 1980s, virtually every major college or university foundation in the country relied on at least two sources for funding operating budgets (many relied on more to maintain growth and momentum). A direct correlation

Figure 2

Determinants for Assigning Functions
Operating Budget
Institutional History
Legislative Regulation
Governing Board Policies
Autonomy Needs

seems to exist between the level of institutionally based funding and the foundation's autonomy index. Foundations that rely heavily on institution support often carry out several functions in the framework of the institution. State regulation, on the other hand, can play an important role in setting boundaries for support of these "affiliated" operations. Self-reliant foundations that operate principally or exclusively with self-generated sources of support and interest-sensitive revenues may enjoy greater flexibility, but also may have to curtail growth when interest rates drop and fewer dollars are available. In either circumstance, growth and development may be retarded or reversed in a campaign environment when special allocations set aside for conducting a capital campaign are depleted or when the campaign is completed.

No easy solutions have been identified for funding the costs of fund-raising. Few fund-raisers disagree with the truism that it costs money to raise money, or that it costs more money to raise more money. Every institution wants to raise more money, but few have long-term solutions to the problem of funding expanded fund-raising efforts. Sources of financial support for foundations are detailed in Chapter 9, but every source of revenue has advantages and drawbacks. Typically, the greater the reliance on institutionally related funds, the narrower the range of foundation activity, the scarcer the resources for expansion, and the greater the institutional control of program functions.

As institutionally related foundations look ahead, defining stable budget formulas and identifying predictable sources of revenue are the first steps in confirming the organization's capacity to carry out certain functions. Revenue budgets must be adequate to the task, consistent, long-term, and in keeping with performance expectations. In today's intensely competitive environment, foundations cannot afford the demands of constantly negotiating revenue budgets and searching for operating funds. Such demands cut sharply into the time and energy the foundation's senior management should devote to acquiring pacesetting gifts and managing key volunteers.

2. Institutional History

Many institutionally related foundations came into being as *ad-hoc* reactions to special needs or external pressures. For example, when a public institution needed to purchase property, the foundation was able to borrow money and hold or develop the property while the state appropriation process took place. Thus, the foundation could buy property and time for the institution. College and university foundations also were developed to accomplish fund-raising and friend-raising tasks that were difficult, if not impossible, to carry out under state regulations. Foundations often supplied the flexibility needed to undertake and manage large capital fund-raising efforts and to do so in a more timely and responsive fashion than would have been otherwise possible.

Regardless of the reasons for their creation, many foundations, absent clearly defined responsibilities, often are tempted to add functions in response to immediate needs, institutional politics, or strong personalities. Such quasi-random growth can obscure their principal focus on fund-raising. Raising private resources for a public college or university is a relatively new phenomenon, which contributes to the frequent absence of definition and intent.

To learn how institutional history affects the selection of functions that a foundation will carry out, leaders must understand the entrepreneurial, decentralized character of public colleges and universities—particularly larger institutions. Power and authority operate differently in the public environment from that typically found in business and industry. While administrative authority generally follows reporting lines, power often resides at the academic level where daily academic and research agendas are carried out. Successful fund-raising plans and actions are influenced strongly by this balkanized arrangement. Graduates often identify and connect most readily with the college, school, or department from which they received their degree; they are drawn more easily to support the institution by contributing to one of these divisions. The stronger the connection, the more comprehensively the foundation's activities must address the divisions. The broader the scope of the foundation's fund-raising activities and programs, the greater the cost of sustaining their quality. Institutional history is a complex determinant for understanding those institution issues that influence the foundation's operations and functions, particularly if the functions are to be reallocated, re-evaluated, or expanded.

3. Legislative Definition

The need to gain flexibility in dealing with constricting state legislation often motivates the development of foundations, and legislative definitions often shape the range of functions foundations undertake. Whether assessing an existing foundation's performance, contemplating change, or establishing a new foundation, identifying legislative limits and options is essential to making effective choices. Similarly, the foundation architects must be conversant on state case law that either may enhance or compromise the foundation's capacity to carry out its mission (see Chapters 12 and 13). Regulation and court interpretation vary among states; their influences on selecting foundation functions must be interpreted in local context.

4. Governing Board Policies

Similar to legislative definition, governing board policies differ with institutions and must be taken into account in determining functions to be carried out by the foundation. Governing board policies should incorporate foundation functions, allow for continuity of leadership, and provide oversight for organizational policy and operation (see Chapter 15). At the same time, governing board policies should discourage micromanagement of foundation operations and limit intervention in organizational operations to the direst of circumstances.

5. Autonomy Needs

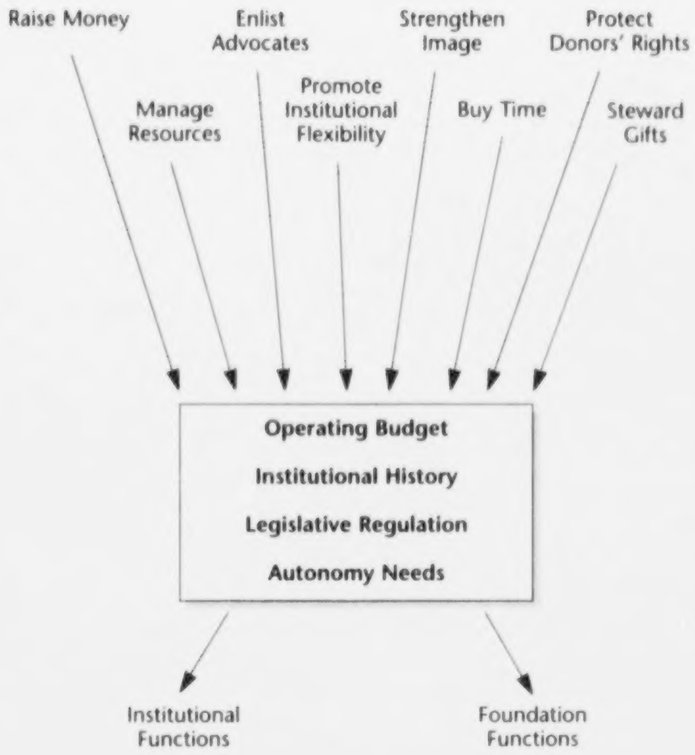
Some institutionally related foundations were created to ensure a well-defined distance between private giving and institutional benefits. In such instances, sources of budget revenue are removed as far as possible from any institutional contribution. Other foundations were created to be servants of the institution, dependent on it for support and captive to its interests. In creating a successful foundation, careful attention should be paid to identifying and defining the degree of autonomy it needs to operate in the context of the host institution. Conversely, foundations must avoid losing touch with the host institution's needs and priorities. The proper balance permits foundations to create an environment favorable to increased levels of private support.

Creating a Successful Foundation

Figure 3 illustrates a paradigm for selecting the functions that create a successful institutionally related foundation. First, the eight primary "institutional advancement" functions are arrayed for selection. Then each is filtered through the five factors that determine if the function is best placed under institutional or foundation purview. The paradigm accepts that certain functions or responsibilities ultimately may be divided or shared. For example, enlisting advocates may be seen as a function of an alumni association, but at the same time, new donors by virtue of their rela-

Figure 3

Paradigm for Selecting Foundation Functions


Raise Money
Enlist Advocates
Strengthen Image
Protect Donors' Rights
Manage Resources
Promote Institutional Flexibility
Buy Time
Steward Gifts
Operating Budget
Institutional History
Legislative Regulation
Autonomy Needs
Institutional Functions
Foundation Functions

tionship become advocates. Similarly, image strengthening may be viewed as a principal activity of the institution's publications or public-relations office; however, securing new faculty professorships or chairs surely will strengthen the image of the institution.

"Principal activity" provides the standard of measure. Donors' rights, gift stewardship, and "buying time" (seizing current opportunity and holding for future allocation, transfer, or use) may be assigned almost exclusively to the related foundation. So too may be the responsibility for all fund-raising.

The process is simple. The fact that it occurs within particular institutions makes it complex. With simplicity as a guide, examine each function and ask the question, "Where is it best carried out?" Answer the question in terms of operating budget. Once the question of where operating funds are acquired most effectively to support a particular activity is resolved, the questions of institutional history, legislative regulation, and autonomy are easier to address. At the end of each assessment, place the function in the appropriate category—to be implemented by the institution or the foundation. If multiple functions accrue to the foundation, the more complex model of foundation organization is appropriate; if fewer functions accrue, the simpler model will suffice. Once the functions are arrayed, substantive planning can begin to consolidate the model and implement its operation.

Figure 4 illustrates how functions might be arranged from the simplest to the most complex. The continuum developed by the consulting firm InForm in fall 1995 (see Chapter 3) categorizes foundations under four headings, with Level I representing the

Figure 4

Continuum for Identifying Foundation Type

Level IV	Level III	Level II	Level I
Active Independent Board Driven Self Sustaining	**Active** Semi-autonomous Board/Staff Driven Budget Assisted	**Active** Institution Controlled Staff Driven Budget Provided	**Passive** Institution Controlled Volunteer Driven Budget Provided
Fund-Raising Major Gifts Planned Gifts Bequests	**Fund-Raising** Annual Fund Major Gifts Planned Gifts Endowment Bequests	**Fund-Raising** Annual Fund? Major Gifts	
Resource Management Endowments Gifts & Grants Real Estate Cash Flow Grant Making Project Selecting Donor Managing Gift Stewarding Influence Leveraging	**Resource Management** Endowment Gifts & Grants Real Estate Intel. Property Mission Focused Long-Range Planning Strategic Planning Campaign Positioned Donor Managing Gift Stewarding	**Resource Management** Endowment Gifts & Grants Donor Relations	**Resource Management** Endowment Timed Gifts Real Estate Capital Assets

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simplest and Level IV the most comprehensive, autonomous, and complex. Clearly, Level I foundations are assigned the principal activity of managing resources, and perhaps tangentially, buying time and providing some institutional flexibility. At the other extreme, the Level IV foundation manages its own resources, assumes a major portion of the fund-raising responsibilities, and takes on other responsibilities, perhaps independent of institutional influence or control. Most college and university foundations today fall on the continuum between Levels II and III (see Chapter 3) and in doing so, assume to an expanding degree all eight functions listed on the paradigm.

While the foundation's functions may place it anywhere along the continuum, for a public institution to have an effective fund-raising program, the eight functions identified in Figure 1 must be implemented effectively somewhere. The only question is where.

Mandatory Functions

One function cannot be assigned to the institution; it must be placed with the foundation. The foundation as bank is mandatory for every college or university foundation because it is only through the autonomy of the independent foundation that donors' rights can be ensured. The minimum charge to a foundation's board of directors is to manage prudently all gifts and use them in accordance with the donor's intent. While ensuring donors' rights, however, the foundation should seek to match gifts to the funding priorities of the institution. Unless the foundation serves the institution's mission and contributes to fulfilling its philanthropic priorities, little reason exists to create the foundation in the first place. Similarly, at the end of the donation process, the foundation is responsible for ensuring that effective stewardship occurs, even if the fund-raising function is carried out under institutional aegis. Stewardship goes beyond simply accounting for the gift. Stewardship validates the difference a donor's gift has made to the institution. Effective stewardship is cultivation of the highest order and legitimizes future fund-raising efforts involving the same donor as well as approaches to others.

Governance

By law, the foundation has a separate board of directors to oversee its legal and fiduciary responsibilities. Board members should be selected because of their commitment to and interest in the institution and their ability to influence attitudes and raise money.

The board also should represent the diversity and focus of the institution's service community—local, state, regional, or national. The board should include the institution's president, the chief advancement officer, other university representatives, and—unless ill-advised in a given state—its governing board (see Chapters 4 and 8). The range and scope of the foundation's activities and functions are related directly to the institution's mission, statement of needs, and definition of priorities. An inclusive, active, supportive, and well-led board that is professionally staffed is essential to fund-raising success.

As the foundation gains financial stability and corresponding autonomy, its board and the governing board should take care to prevent the foundation from becoming isolated or assuming the role of grantor and thus placing the institution in the role of supplicant. While such a relationship may seem to work, troublesome questions of institutional vitality and philanthropic vitality constantly must be asked and answered. Institutionally related foundations are specialized service-delivery organizations. The congruity between service and institutional needs may be obscured under these circumstances. This question of service on behalf of the institution's needs and priorities places a parallel set of demands on the foundation's governance and mission related to donors. Each private gift initiates a trust relationship between the donor and the foundation on behalf of the institution. It bears repeating to say that in conjunction with the mandatory banking function, the foundation's board has a fiduciary responsibility to see that gifts are administered and used in accordance with the donor's intent. The board cannot abridge this responsibility regardless of the number of functions remaining with the institution.

Evaluation

Choosing functions intentionally and arranging them consciously also contributes to ease of evaluation. Each of the eight functions (see Figure 1) should have three to five defined standards of performance. The governing board and the institution's president can assess organizational performance quickly, effectively, and continuously. Carried out in this way, the foundation board's responsibilities for policy development, organizational assessment, and donor relations prevent the hazards of micromanagement and empower the foundation and institution staff to plan, implement, and manage operations. Simplicity is essential to success! In day-to-day operations, foundation and institution staff involved in fund-raising and support activities can be distracted into a labyrinth of ancillary tasks that interfere with maximum performance. A framework that mandates attention to a limited number of success criteria provides a focal point for strategic planning, operating tactics, and individual effort.

One additional evaluation dimension for the foundation involves its role in national philanthropy. American higher education is struggling with the results of a well-documented loss of public confidence. To contribute to the restoration of public trust, foundations must consciously link institution priorities and the impact the institution has on society with gift solicitation and management. This focus on internal, intentional decision making about foundation functions (and the rigorous evaluation of those functions) will help ensure that the foundation minimizes a tendency to become isolated and maximizes its service to the institution and society.

Special Needs

Institutions with multiple campuses and institutions with multiple foundations on the same campus have special needs in creating and sustaining successful foundations. Single institutions in multicampus systems or settings rarely have identical missions, equal quality, or analogous size and resource allocations. In applying the paradigm for creating a successful foundation to special circumstances, an additional step may be necessary to determine if a central foundation will serve better than a foundation on each campus. The model in Figure 3 still can be used by substituting "central foundation" and "campus-based foundations" as potential structures. Each function selected for foundation operations should be considered in terms of budget, institutional history, legislative definition, governing board policy (especially in system environments), and autonomy needs to decide if it is best placed in a central foundation or distributed in a set of foundations.

A similar strategy may be posed for campuses with multiple foundations. However, the institution's president and the leadership of its various foundations first should ask themselves—forthrightly and rigorously—if they are willing to accept the outcomes of this process, whether they indicate change or validate current structures. Leaders also should ask if they can maximize the philanthropic potential of the institution with a segmented structure. The potential for confusion and counterproductive competition in such configurations may well demand that new, and as yet untested, foundation models be developed for institutions with special structures and diverse needs.

Conclusion

In an era in which businesses constantly are being forced to redefine, reorganize, and even refound themselves, public institution foundation leaders should ask regularly if the foundations are providing the most effective delivery of service possible and securing the maximum market share. The paradigm for creating a successful foundation provides an effective model for creating new foundations or making periodic performance assessments of existing foundations to determine if its activities are productive and firmly grounded.

Private giving through foundations will not solve all problems of public colleges and universities. Many problems, however, never will be solved without substantial and ever-increasing private support. Well-constructed and properly managed foundations can help uphold the host institution's standards of quality, contribute to its excellence (which helps keeps the institution healthy and competitive), and rekindle public confidence in higher education—a confidence now lacking but so crucial in the demanding world colleges and universities serve. ■

CHAPTER 3

Growth Patterns of Active Foundations: Lessons for Boards

Joseph F. Phelan and
David T. Shufflebarger

One of the intrinsic attractions of college and university foundations is the expectation and likelihood that such a major fund-raising entity will help generate revenue to offset the cost of fund-raising and one day become financially independent of its host institution. Governing board members naturally are intrigued with the prospect that if they invest in steadily declining seed-funding for a foundation for a few years, the institution may realize a self-sufficient fund-raising program as a result. The possibility of a "profit center" that generates millions of dollars in annual gift revenues in perpetuity while keeping pace with inflationary pressures and the budgetary burdens that come with internal growth is inviting indeed.

James W. Leslie, past president of the University of Rhode Island (URI) Foundation and founding president of the Society of Institutionally Related Foundations (SIRF), contends that "as [foundations] grow in terms of resources—in the $20 million range or so—they can begin paying their full costs."[1] Two assumptions underlie this assertion. First, a small management fee of one percent, for example, is levied against the endowment, resulting in $200,000 a year in operating support revenues. Second, several thousands of dollars are realized by capturing the "float" from short-term investments of current-year, current-use gift dollars.

Leslie's contention may be somewhat optimistic for two important reasons: First, more than 78 percent of the 726 institutionally related foundations that responded to a 1993 survey conducted by the Council for Advancement and Support of Education (CASE) reported their total assets to be less than $10 million.[2] Second, while the formula may be pertinent to the URI foundation, it may not apply so readily to foundations with dissimilar structures. The URI foundation, with managed assets of just more than $27 million, generally is passive in nature. In other words, it operates as a repository for gifts; none of its five employees is a fund-raiser. So, despite Leslie's laudatory goal of expecting a foundation eventually to pay all of its operating costs, the $20-million breakpoint probably is relevant only to URI-type passive foundations and to small, affluent, active foundations.

In contrast to the Leslie doctrine, consider one of the six scenarios developed for this handbook by John Lippincott, associate vice chancellor for advancement for the University of Maryland System, and John K. Martin, president of the University of Maryland Foundation, Inc. and vice chancellor for advancement for the University of Maryland System. (The scenarios are discussed in more depth later in this chapter.) In placing the scenarios on a passive-active continuum, Martin and Lippincott cite one as a "minimally active" foundation (Level II+ on the continuum shown in Figure 4 in Chapter 2). It manages an endowment of $75 million. Its extrapolated operating budget of nearly $2 million covers the activities of nine professional fund-raisers and support staff. Its fund-raising goal for the current fiscal year is $12 million, reflecting a fund-raising cost ratio of 17 cents per dollar raised, a figure compatible with those reported in national studies.[3] In this scenario, the foundation conceivably could cover half or more of its overall budget through a modest assessment against the endowment and through capturing the float originating with its current year cash flow. For four-year institutions with reasonably mature, active foundations, this scenario appears to be a bit more realistic.

Thomas R. Popplewell, past president of the University of Connecticut Foundation, writes in Chapter 10 that an institution is responsible for partly or wholly funding its development program. Nevertheless, a well-managed and growing foundation can reduce or help control its financial dependence on its host institution. And true self-sufficiency (if such a status is viewed as desirable) is not out of the question over time for remarkably successful foundations. The Kansas University Endowment Association (KUEA) in its "Fast Facts" publication of August 8, 1995, cites a fiscal 1996 operating budget approaching $5.9 million. Its administrative and fund-raising costs for the same time are 13.1 cents per dollar raised. All of the 1996 administration and fund-raising costs will be covered by income generated by the foundation.

Such success, however, was long in the making, according to a review of KUEA's fund-raising history. Fifty-eight years (1891–1949) were required to bring the foundation's managed assets to $1 million. Nine more years were required to bring the managed assets to more than $5 million. Six years later, in 1964, the assets had grown to $10 million, and by 1970 the assets exceeded $25 million. Since then, the value of the association's endowment has grown to $385 million, thus confirming that the exponential growth of assets continues unabated throughout the 1990s.

This enviable history is not the sole domain of KUEA. Twenty-seven foundations formed before 1970 and in the top 100 of all institutionally related foundations (as measured in assets) reflect similar growth patterns.[4] Collectively, they manage $2.4 billion. Seven of the 27 classify themselves as self-sufficient, Level IV foundations. For the group of 27, the average growth/time increments follow: formation to $1 million, 21 years; $1 million to $5 million, just under nine years; $5 million to $10 million, six years, and $10 million to $25 million, about five years.

Additionally, 20 younger foundations in the top 100—those formed after 1970, perhaps with fund-raising as a goal—emulate older foundations with more efficiency. This group controls another $700 million. Ten are Level IV foundations. For this group, the average growth/time increments follow: formation to $1 million, about four years; $1 million to $5 million, almost five years; $5 million to $10 million, about three years, and $10 million to $25 million—for the 10 in this group that have achieved this status—about four years.

Significantly, when the two groups (one group of 27, one group of 20) are considered as a whole, 10 of the 47 foundations report starting as Level I foundations (those that restrict their activity to managing assets and distributing income). However, by the time the $5 million plateau is reached, only four remain at Level I. By the time the $10 million plateau is reached, all responding foundations (including four that serve community colleges) are self-classified as active, fund-raising foundations in Levels II, III, and

IV. The majority—29 of 47—are in Levels II and III. In the combined sample of 47 foundations, 26 report assets exceeding $25 million. Only one, with assets of $35.7 million, considers itself a Level II foundation.

Four characteristics distinguish Level II foundations from Level III foundations: the level of institutional control, sources of budgetary support, level of board involvement in program functions (including fund-raising), and the sophistication and scope of foundation activities. Level II foundations essentially are extensions of the host institutions—their budgets and personnel are funded by, for the most part, institution resources. Boards tend to be large and focused on resource management. Fund-raising generally is conducted by professional staff, often in the institution's development office.

Level III foundations are more autonomous and demonstrate a far more comprehensive approach to fund-raising, including the board's ability to conduct fund-raising activities. But the host institution—by providing a fair share or more of the foundation's operating budget—maintains a good deal of leverage in its relationship with the foundation.

Six Models along the Foundation Continuum

Institutionally related foundations do not fall neatly into the four levels of the continuum. Recognizing that fact, Martin and Lippincott developed six hypothetical but realistic scenarios for this handbook to further illustrate how foundations progress from "passive" to "active" and describe probable staffing levels.

Scenario 1. At the passive extreme, this foundation was established as a private organization for the sole purpose of handling endowed funds, which currently total $7 million. A seven-member board of directors is managed by a part-time executive director, who also holds another position in the host institution. The operating costs are minimal. Fees related to investment management, accounting, and auditing of the foundation are covered fully by a small portion of the earnings on the endowment. The institution is seeking to raise about $1 million per year in private gifts. The institution provides the support for the salaries of a single fundraiser and a part-time secretary, who together share responsibility for all phases of the fund-raising process.

Scenario 2. This foundation, also passive, handles nonendowed as well as endowed funds totaling $47 million. A full-time executive director works with a two-person accounting staff to handle transactions and to manage relationships with the external auditors, investment counselors, and a 12-member foundation board. To reach the current annual goal of $5 million in private gifts, the host institution, independent of the foundation, invests $750,000 annually to support four fund-raising professionals and two secretaries. The institution also supports such modest foundation programs as fund-raising publications, rudimentary donor research, and donor "club level" recognition events.

Scenario 3. This foundation is minimally active, by virtue of a 20-member foundation board whose members solicit donations at the request of institutional officials. The foundation employs a full-time executive director, four accountants, and three support staff and manages assets of $75 million. A separate institution staff of eight professionals provides materials and other support for foundation board members' fund-raising activities in the joint pursuit of a current $12 million fund-raising goal. Additional annual development expenses include $150,000 to maintain and upgrade an alumni/donor database of nearly 120,000 names.

Scenario 4. At this active foundation, 35 board members work closely with the institution's governing board to identify and solicit donors. A 15-member development staff carefully coordinates and supports the work of both boards. While this staff is employed by the institution, salaries and related operating expenses are covered largely by an annual allocation of 1.5 percent of the foundation's $120 million endowment. An additional 1 percent of endowment underwrites internal financial operations related to foundation activities. The institution invested $500,000 from its operating budget in sophisticated computer hardware and software to manage increasingly complex databases and information systems. This investment precedes the announcement of a $300 million capital campaign and helps make possible its eventual success.

Scenario 5. This single foundation serves eight institutions within a university system. Collectively, the institutions raise nearly $100 million annually in private support. Each campus employs its own fund-raisers, but the 18-person foundation staff includes a four-person core group with special expertise in planned giving and major gifts. This arrangement ensures that complex agreements between donors and the foundation have the benefit of expert review. The 50-person foundation board reflects the interests of all constituent institutions; board members provide active fund-raising assistance to campuses of choice. The foundation president's entire salary is paid from the foundation's budget, even though the president also serves as an officer of the system. This purpose of this arrangement is to strengthen the ties and communications between the campus-based development programs and the system's governing body.

Scenario 6. This highly active foundation, affiliated with a major research university, covers salaries and operating expenses for a 25-person fund-raising staff and a 15-person financial management office. In addition, the foundation supplements the salary and travel and entertainment budgets of the university president, especially those costs related to the current $1 billion capital campaign. The foundation has been successful for eight decades through sound fiscal oversight, and more recently, through a professionally managed, highly sophisticated program of donor cultivation, solicitation, and stewardship. Every member of its board participates in the foundation's program activities and fund-raising success.

Lippincott and Martin suggest that these six scenarios define foundations in terms of their degree of fund-raising activity, level of assets, board size, and relationship with the host system or institution. They agree with Hedgepeth (see Chapter 2) that the combinations and permutations of the variables allow for uniqueness in every foundation. In keeping with Hedgepeth's doctrine, Lippincott and Martin assert that for the institutional president or foundation director, the key leadership issue is to structure the foundation's unique aspects to complement its host institution.

Foundations Serving Emerging Colleges: Advice for Boards

As previously noted, larger foundations formed during the past 25 years experienced growth more quickly toward Level III or Level IV status, as compared with older foundations. Foundations established in the 1990s tend to be created more to generate revenues for the respective host institutions and less as a response to state laws governing the use of public funds. As such, and if the alumni or other donor base is sufficiently large and affluent, these new foundations should model themselves on the characteristics of effective foundations described in Part II of this handbook. Additionally, these foundations probably will develop endowments and other assets at a pace that will permit a steady increase in self-generated budget support.

Many institutions now served by recently created or reactivated foundations were preoccupied in the 1960s and 1970s with managing rapid growth and developing new programs. Millions of dollars in state funds were readily available to underwrite this growth. Many presidents were lulled into complacency and did not devote significant time and effort to building campus-based development programs. With the brilliance of hindsight, such strategies now appear to have been short-sighted. Today, higher education generally receives a smaller share of state revenues (see Chapter 14) and state officials are asking public colleges and universities to do more with less and to do it better. This environment spurs many institutions to reach new standards of quality; it also provides a catalyst for cultivating private support.

Further, many institutions previously served by Level I or Level II foundations now aspire to expand their fund-raising capabilities. This trend is especially prevalent among one-time normal schools or similar institutions that during the 1960s and 1970s rapidly evolved into multidisciplinary state institutions. Existing, related foundations did not keep pace with these changing institutions, perhaps because officials assumed (correctly or not) that the alumni—primarily active and retired teachers—did not have the capacity to make major gifts to their alma mater. Now, however, many such institutions have had college or university status for 30 or more years, which generally is accepted as the span of time that permits a serious pursuit of private gifts. Some institutions are finding that many graduates have the financial capability to give sooner than institution leaders anticipated. Further, these more recent graduates are inclined to provide meaningful support to programs and projects of personal interest. In either case, these colleges are revamping fund-raising programs and their foundations are being positioned to serve as the locus for significant capital campaigns.

Data from national surveys conducted by the Council for Aid to Education and CASE suggest that these emerging institutions place a renewed and increased emphasis on fund-raising. In 1985–86 (the first year survey research identified support for public comprehensive colleges and universities), these institutions received just 3.2 percent of the total gifts to higher education. In 1993–1994, the most recent years for which data are available, these institutions raised 6.2 percent of the total, representing a 30.9 percent increase from the prior year. In terms of fund-raising, emerging colleges and universities are by far the fastest growing category.

Despite this heady success, these emerging institutions are not without related problems. One such difficulty is that existing foundations tend to be entrenched and resistant to change. Large and usually provincial boards are content with their current role. Board members are selected or elected because of their availability, affinity, and accessibility rather than their capacity to give and get. They generally find their service to the foundation and institution enjoyable and personally rewarding. Under these circumstances, who would welcome major change? Fortunately, a few members support the notion that the institution needs a different kind of foundation and such need supersedes the board's comfort in the status quo. These few standouts must be nurtured by institution leaders as catalysts for change. However, institution leaders must acknowledge that change will occur at a pace that requires patience. Eventually, the entire foundation will need to be convinced that change is necessary and desirable. The change process takes time, perhaps a year or more.

As a first step in that process, the president should initiate change in a context, such as the institution's mission, or even better, a vision statement, particularly if its realization depends on a substantial increase in private support. The challenge to the foundation then becomes how the board can best meet its responsibility to helping achieve the institution's mission and vision. A subset of the foundation board or its executive committee should review its own mission statement (or in the absence of one, draft one) and recommend its revision or adoption.

Second, the board must conduct some initial analysis to determine its present location on the continuum of foundations and then determine where the foundation *should* be to fulfill its new mission. Once that determination has been made, board members should quantify the current level of foundation activities and establish preliminary targets for restructure or reorganization.

An additional level of required analysis tends to be more personal in nature. In light of the foundation's new mission and stepped-up demands, individual members should evaluate the board in at least four areas: (1) its ability to govern effectively a dynamic, multimillion dollar enterprise; (2) its composite and individual giving histories in view of more ambitious fund-raising projections and goals; (3) its commitment of productive time to two primary activities—fund-raising and fund management; and (4) its overall impact on the health and future of the foundation and its host institution. If this analysis is conducted in either a board-meeting setting or during a retreat, individual members will be able to assess their personal impact without any accompanying confessions or embarrassment.

Following these analyses, the board should authorize a subcommittee to make specific recommendations to connect the foundation's activities solidly to its new (or renewed) mission and the host institution's mission. Such recommendations should encompass governance and bylaws, staffing, structures for committees other than those mandated by the bylaws, and activities and responsibilities of board members. One key recommendation, the level of financial support expected of each director, no doubt will affect the size of the newly constituted board. It often offers directors an opportunity to step down voluntarily and thus avoid a potentially unpleasant situation. If current members accept the notion that their most important legacy is to create a board that is compatible with a new mission, few feelings will be hurt or egos damaged.

At this point, the foundation has segued into a new era with the decided advantage that it does so with a few seasoned veterans. The processes and procedures that guide a maturing foundation are outlined in the following chapters. ■

[1] Brown, Marguerite May, *Institutionally Related Foundations—Issues of Autonomy and Independence: An Analysis of Selected Components of a National Council for Advancement and Support of Education (CASE) Survey*, doctoral dissertation, University of Connecticut, 1995, p. 9.

[2] Monalco, Inc., "Final Report," *CASE Survey of Institutionally Related Foundations*, July 27, 1993, p. 5.

[3] Council for Advancement and Support of Education, "Expenditures in Fund-raising, Alumni Relations, and Other Constituent (Public) Relations," 1990, p. 20.

[4] In a November 1995 survey, the editor of this handbook asked 100 foundations with reported assets of more than $10 million to track asset growth in increments of $1 million, $ 5 million, $10 million, and $25 million. Of the 47 foundations that responded, 26 reported assets in excess of $25 million.

Section II: Structure and Function

CHAPTER 4

Starting New Or Starting Anew: Organizing with Purpose

Joseph F. Phelan

CHAPTER 5

Active Fund-Raising for Active Foundations

John Lippincott and John K. Martin

CHAPTER 6

Managing Assets, Part One: The Effective Foundation Investment Committee

John W. Guy

CHAPTER 7

Managing Assets, Part Two: Investing and Spending

David W. Bahlmann

CHAPTER 4

Starting New or Starting Anew: Organizing with Purpose

Joseph F. Phelan

The continuum for identifying foundation type to which Royster Hedgepeth refers (see Chapter 2) contends that colleges and universities effectively decide the tasks and related responsibilities to be assigned to the foundation. As time passes, the responsibilities of the foundation may change on the continuum: The Level I passive, banking foundation shakes off its lethargy and enters the world of active fund-raising, or a Level II foundation assumes additional donor-related responsibilities or matures in its role as a fund-raiser or gift steward.

At times the movement along the continuum is driven by the advent of a capital campaign or by proclamation of new institution leadership. The staff-driven Level II foundation may realize suddenly that the available in-house talent and energy no longer are adequate in the face of expanded expectations and accelerated goals and consciously starts evolving to Level III. One sign of such change is the recruitment of board members with a penchant for fund-raising. Achieving financial self-sufficiency may place a foundation at Level IV.

Just as new construction usually is easier to undertake than reconstruction or rehabilitation, beginning a college or university foundation from scratch probably is easier than moving a Level I foundation on an accelerated path toward Level III. And the Level II foundation is no less susceptible to inertia when the word comes down announcing that the foundation is to become a "dominant force" in bringing private support to the institution. Many foundations at Levels I and II have boards that reflect their present status and mission (or lack thereof). The boards may be too large to be manageable. Members may view being appointed or elected an honor instead of an important assignment. And in the case of emerging institutions—such as those that originated as normal schools or similar institutions and emerged in the 1960s and 1970s as state colleges and universities (see Chapter 3)—the boards may be very provincial. The board member recruitment process may overlook or neglect the potential of graduates who have distinguished themselves nationally or who have accumulated substantial wealth, particularly when they reside beyond the borders of the institution's home state.

Existing foundations may resist change, even in the face of reasonable, compelling, and intellectually based arguments. When such is the case, board membership has to change. The size of the board may have to be reduced substantially. Members who viewed themselves rightly as loyal, though modest, contributors and faithful meeting attendees will have to demonstrate their capacity to "make a difference" or make room for someone who will. The social aspects of board gatherings will become subservient to a new more business-like mandate. Honor and recognition will become the result of performance rather than stature intrinsic to being seated at the boardroom table.

But while reorganizing an existing foundation poses sensitive problems (discussed in more detail in Chapter 3), the principles of doing so are nearly identical to start-up. Whether they are motivated by the host institution's budgetary constraints or by a desire to exploit otherwise lost opportunity, foundations being organized or reorganized today generally aspire to emerge near or at Level III for fund-raising, fund management, and gift and donor stewardship purposes. The process and strategies outlined below are designed to position a new or renewed foundation at that level.

Alerting the Various Publics

One of the hundred or so peculiarities of the higher education culture is that the pursuit of knowledge includes a right for everyone to know about everything that is going on within the campus environs, and most especially to be informed fully about anything that is being masterminded by the "suits and ties" in the administration building. Much campus news is of the ordinary, if sometimes controversial, variety—new buildings, schedule changes, and budget reports, just to name a few. However, the emergence of a foundation as the locus for fund-raising requires a special exercise in campuswide education. As noted in other chapters, even long-standing foundations may be viewed by the campus publics with suspicion or even mistrust. The foundation invariably will cost money and occupy space. Its existence requires justification.

This justification actually should begin beyond the physical boundaries of the campus, with the governing board. (See Chapter 15 for more about foundation board-governing board relationships.) In the total absence of a foundation at an institution, few if any members of the governing board will have heard good things about college and university foundations in general. Rather, many trustees will know only of miscreant foundations that usurp the prerogatives of governing boards, cause college presidents to seek employment elsewhere, or foolishly allocate unrestricted gift dollars.

Technically and legally, any person or group may organize a foundation without the approval of any other body, but to do so without the acquiescence or advance approval of the governing board is foolhardy. The governing board has the power to authorize or withhold the use of the institution's name and to approve or deny funds and facilities for specific uses. It ultimately is responsible for the acceptance of gifts and grants directed to the governed institution. Here, then, is where the persuasive process must begin. Trustees require assurances and reassurances on the way to endorsement or approval. Supporting arguments are found within this book, including the dozen positive reasons for having a foundation (Chapter 1), the impressive growth patterns of fund-raising success of maturing foundations (Chapter 3), and the efficacy of cross-representation on foundation boards (Chapters 5 and 15). The success of foundations at peer institutions may provide additional evidence to support start-up.

Regardless of how the governing board is convinced to endorse a foundation's creation, the members must be persuaded early. When the first article appears in the campus newspaper announcing that "Very Superior State University Considers Creating a Fund-Raising Foundation," the positive attitude and wholehearted support of the governing board must be evident in the first few paragraphs of the story. Subsequent campus newspaper articles and briefings with campus leaders should track the foundation's progress toward realization. The foundation's principal advocates should seek out and accept invitations to appear at any of the multitude of campus forums. Each advocate should be prepared with an outline or text for a presentation so the messages and explanations are uniform and consistent.

Identifying the Advocates

Chief among the advocates for a foundation is the college or university president. Endorsement at this level carries an implied commitment to the foundation's ultimate success. The eventual foundation board members will not relieve the president of fund-raising responsibilities any more than they will replace the development staff. The board will augment an anticipated expanded role of the president and staff in the pursuit of private support.

The leadership of the alumni association also can provide valuable, confidence-building testimony through alumni-directed publications and group activities. The endorsement of the alumni association also is desirable. To expedite this endorsement, the board might grant the president of the association or another board designee an *ex officio* seat on the foundation board.

Key development officers also may serve as advocates for the foundation. If spontaneous enthusiasm is not visible at this level, staff may not be enthusiastic once the foundation is a reality. Even in the circumstances where an element of the institution's fund-raising initiative—such as the annual fund—remains with the college or university, all fund-raising staff and volunteers must exhibit a noncompetitive, mutually supportive, and cooperative attitude. In the best light, development staff will be able to speak with authority on the need to expand major gift programs and pursue more sophisticated forms of planned and deferred giving.

The key advocates, however, are the core of individuals who, with appropriate staff support, will create the foundation: the foundation steering committee. These half-dozen people, chiefly volunteers, will determine largely the foundation's degree of success, especially in the early going. Anthony Kuzneski and Larry Panaia, Indiana University of Pennsylvania foundation board members, underscore the relative importance of the established foundation nominating committee (see Chapter 5). They suggest that the nominating committee is the most important of the foundation's standing committees because future board membership is the product of this committee's deliberations and recommendations. No less may be said of the steering committee. Among its charges is the charter membership of the foundation's first or reorganized board. Because people tend to replicate their own characteristics when they select others to become their peers, those in charge of constituting this committee—the president of the institution or key volunteers—have a crucial responsibility to see that the committee membership and leadership will satisfy criteria for effective, influential foundation board members. Most (perhaps all) steering committee members will become charter directors of the new foundation. The committee chair, whether named in advance or selected by peers at the initial meeting, should be seen as a reasonable choice for the foundation board's first chair.

First Steps

Beyond its advocacy role, the foundation steering committee has two essential responsibilities: First, the committee must accomplish all of the legal machinations that procure and verify its status as a 501(c)(3) tax-exempt organization. Second, the committee acts as a recruiting and nominating committee for the first board. Insofar as creating the legal entity is concerned, the task involves more than completing state and federal forms. If those who shape the steering committee demonstrate a bit of foresight, they will recruit a prominent attorney to the committee early on.

The foundation is by design and definition independent of its host institution. As such it must have its own articles of incorporation and bylaws. Both are precedent to securing favorable tax rulings and nonprofit status. Neither document needs to be voluminous. In today's world, the governing documents crafted by the founders of the Kansas University Endowment Association probably will not suffice as a model. Most bylaws crafted in contemporary society will exceed the six paragraphs approved by 12 able men on that October 31, 1891. In contrast to the KUEA's simple admonition that people should perform the "usual duties pertaining to their offices," most contemporary bylaws will include far more detailed descriptions of the duties of officers and others. But the 1990s crafters of college and university foundation legal documents, legal minds or not, should keep in mind that bylaws and articles of incorporation must be enabling documents, not inhibit-ing strictures. The information provided must be sufficient to satisfy the secretary of state or the state's attorney general and the Exempt Organizations Division of the Internal Revenue Service. The documents also must permit the foundation directors to perform the tasks ahead of them. Policies and procedures, fee levels, and any other information subject to occasional change has no place in the bylaws. While these documents are subject to ongoing board scrutiny, the bylaws and articles should be viewed as permanent—subject to amendments only after long intervals.

A subset of the foundation steering committee should be charged with drafting these two documents. This subcommittee must secure forms 1023, 872-C, and 8718 from the Internal Revenue Service. The first two forms, encompassing 14 pages, constitute the "Application for Recognition of Exemption" and are the precursors for three important determinations. The first is the fundamental 501(c)(3) nonprofit corporation status determination. This ruling provides that the corporation is exempt from federal income tax. The second is a "publicly supported" determination under Section 170 of the Internal Revenue Service Code. This second ruling, along with a 509(a) "not a private foundation" determination, confirms that gifts to the foundation are deductible for income tax purposes. The completed application must be submitted to the Internal Revenue Service along with a separate Form 8781, the "User Fee for Exempt Organization Determination Letter Request," and an accompanying filing fee ($465 in 1996). In return, the IRS, within 60 days or so, either will issue the favorable determinations or request further clarification on any of the myriad of questions in the application.

The advantage of completing this form as the bylaws and articles are constructed is that much of the information required is germane to both documents. In fact, state and federal governments will request copies of the foundation's bylaws. Internal Revenue Service Form 1023 cautions applicants not to file "this application if the applicant has no organizing instrument," and then refers to Part II that specifically requires the articles of incorporation and bylaws to accompany the application. The IRS will compare the provisions of both with the responses to the application interrogatories to determine consistency. The filing requirements of state—and at times local—governments vary, but the legal mind on the steering committee will either know or know how to find out what items are required.

Building the Bylaws

The articles of incorporation answer the "who, what, and where" questions of the foundation: Who specifically has come together to do what for what purpose, and where will the activity be carried out? The bylaws answer how: How will the organization in a broader sense be structured and governed? The bylaws also will include most, perhaps all, the information found in the articles. The subcommittee should construct the bylaws first and then back the required information into the incorporation papers.

Bylaws need not begin with a blank sheet of paper. One or more foundation subcommittee members, by virtue of memberships in other nonprofit organizations, probably will have access to their respective bylaws. Also, most law office libraries have information on bylaws inclusions and requirements and may have on file models of bylaws that apply to higher education foundations. Existing college and university foundations generally are happy to provide copies of governing documents. Requests should be made to colleges of roughly the same size and orientation. The University of New Hampshire Foundation, for example, modeled its bylaws on those of the University of Maine, the University of Connecticut, and the University of Colorado. Sample foundation bylaws are also available on request from the National Clearinghouse for Institutionally Related Foundations, located in the offices of the Council for Advancement and Support of Education (CASE) in Washington, D.C.

Often, those charged with writing bylaws succumb to the temptation to include in the document every possible idea or item that comes to mind. That temptation is easily accommodated because bylaws may contain virtually anything as long as the contents include the essentials. However, the more inclusive the bylaws, the more susceptible the governing documents are to frequent change. For example, if the bylaws contain a membership provision based on a minimum contribution of $1,000, and in subsequent years the board determines that gift level is far too low, the bylaws will have to be amended to include the revised sum. A preferred approach is to include a provision that says, "Membership in the foundation will be accorded to donors who provide support at or above a stipulated level. The minimum level shall be established from time to time by the board of directors."

A related temptation is to identify all of the committees that could possibly assist the foundation in its work—the AGB Survey of College and University Foundations (see Appendix A) identified more than 20—and then to describe in the bylaws the nature and function of each committee. A preferred approach is to confine the bylaws to descriptions of the minimum number and type of committees essential to the *governance* of the foundation and include the disclaiming statement that "the board may establish as required other standing and *ad hoc* committees to assist with the pursuit of the foundation's mission." If the subcommittee writing the bylaws continually tests its inclusions against the word "governance," superfluous material will not find its way into the document. It should focus on answering this fundamental question: "What stipulations are truly essential to the way in which we as a board perform our appropriate roles as directors, and in so doing provide for reasonable controls and oversight for the ethical and fiscal operations of the foundation?" (See Exhibit 2, Appendix B.)

The bylaws begin with an appropriate identifying title, "Bylaws of the Very Superior University Foundation" or some variation, and continue with essential inclusions encompassing these dozen or so articles:

- **Article I—Name and Location** includes the formal name of the foundation together with any alternate name, trademark, or trade name under which the foundation may conduct its business, and the location (city or town) at the time of incorporation.
- **Article II—Purpose** is the cornerstone of the foundation. It is the reason for being, the prototype for the foundation's mission statement, and the rationale that will encourage people with similar convictions to serve and support.
- **Article III—Fiscal Year** encompasses the calendar year, the academic year (September to August), another nonprofit business year (July to June), or some other 12-month period. Provision may be included for an outside audit to be conducted and published by a certified accounting firm following the close of each fiscal year.
- **Article IV—Governance** describes the nature and number of the board of directors, the universes from which they are selected, the manner by which directors are either elected or placed in an *ex officio* capacity on the board, the stipulated terms of office, and the conditions for reappointment.
- **Article V—Quorum** defines the minimum number of directors that may conduct the business of the foundation at any meeting. Information also is provided on any nonconvened, quorum-restricted, acceptable manner of transacting the foundation's business.

- **Article VI—Officers** identifies the board-elected officers and their specific responsibilities and terms. The minimum should include the president, vice president, secretary, and treasurer, and a clerk if required by state law.
- **Article VII—Meetings** indicates the minimum number of board meetings that must be held within a calendar or fiscal year. If special provisions exist for an annual meeting (recommended), such provisions should be detailed.
- **Article VIII—Governance Committees** identifies and describes in some detail the duties and any special membership requirements or allowances for permanent committees necessary for proper governance. Such committee inclusions may be limited to executive, investment and finance, nominating, resources (philanthropy), bylaws, and possibly audit, if this latter function is separate from any other fiscally oriented committee. (See Chapter 5 for more about committee duties.)
- **Article IX—Other Committees** provides the disclaimer permitting the board to create other standing programmatic committees and *ad hoc* committees.
- **Article X—Dissolution** commits the assets of the foundation to the host institution in the event the foundation ceases operation.
- **Article XI—Procedure for Amending** the bylaws includes requirements for prior notification, intervals for action, and any other special considerations that lead to opening and modifying the provisions.
- **Article XII—Corporate Seal** displays the actual embossed seal of the foundation and identifies it as requisite to the ratification of contracts, agreements, and other legal and financial documents.

The bylaws, of course, may contain other provisions. If donors are indeed "members," the requirements for and privileges of such should be described and delineated from the responsibilities of the governing directors. Similarly, if the board membership is kept within a reasonable range (20-50) and provisions are made for advisory directors, the same delineation is required. Finally, the bylaws must be dated at the time of ratification and following any board action to amend. Each set of republished bylaws must carry the dates of amendment(s). The seated board must know that it is working under the most recently approved set of governing documents.

Articles of Incorporation

The articles of incorporation are prepared for the appropriate state office, usually the office of the secretary of state. Because the foundation will be tax-exempt, no need exists to seek incorporation in an alternate state with superior tax advantages. The incorporators, however, will have to request forms or formats from the state (usually through the office of the secretary of state), because the requirements for inclusions vary among states. Beyond the uniformly recognized title, "Articles of Incorporation of the Very Superior University Foundation, the information provided below cites 12 articles that appear to be common to many incorporating documents. (Also see Exhibit 3, Appendix B.)

- **Article I—Name** identifies the entity as a nonprofit corporation: the Very Superior University Foundation, Inc.
- **Article II—Exempt Status** cites the foundation's classification as a tax-exempt, 501(c)(3) charity under the Internal Revenue Code of 1954. It also may cite the foundation as publicly supported under Section 170 of the Code and state that gifts to the foundation will be deductible for income tax purposes.
- **Article III—Purpose** may be taken verbatim from the bylaws and embellished a bit to describe the various sources of anticipated support. This section also may include a disclaiming statement that says none of the directors will benefit materially from participating in foundation activities and the foundation will honor all state and federal provisions relative to the conduct of operations and reporting requirements.
- **Article IV—Principal Office** identifies minimally the city and county from which the foundation will initially conduct its central operations.
- **Article V—Names of First Board Members** identifies the names and addresses of the members of the first foundation board of directors. Signatures are not required, but at the end of the Articles a fewer number of adults may serve as incorporators by affixing signatures and addresses in the presence of a notary public.
- **Article VI—Election of Directors** indicates that the election procedures are followed as described in the bylaws.
- **Article VII—Income and Distribution** reaffirms that income to the foundation will not benefit any director or member (if applicable), that income will be used in a manner consistent with the purpose of the foundation, and that no private

person will share in the distribution of the assets in the event of dissolution.

- **Article VIII—Operating Authority** cites the state statutes under which the foundation is granted the authority to conduct its business and pursue its objectives.
- **Article IX—Prohibited Activities** confirms that the foundation will not use any significant portion of its resources to influence legislation or to advance the campaign of anyone seeking election to public office.
- **Article X—Procedure to Amend** describes the method whereby the foundation's board of directors may take action to alter the articles in conformance with the laws of the state.
- **Article XI—Address for Notice** informs the secretary of state of the initial legal mailing address to which notices and other information may be sent.
- **Article XII—Distribution on Dissolution** should be stated in a manner consistent with the language in the bylaws.

Recruiting the Foundation Board

The subcommittee on bylaws and other legal documents should not conduct its business in isolation. The bylaws article describing the purpose of the foundation is a tool for recruiting directors. The article describing the size of the board indicates the breadth of the recruiting effort. The same article defines how many board members will be seated by virtue of other office. All of this information, debated and approved by the committee, becomes the working mandate for such a committee on initial board membership. The size of the board equates to its ability to perform. Governance carries certain legal and fiduciary responsibilities. An inherent danger exists in spreading such responsibilities too thin or too far. Huge boards feel exonerated from liability on the simple strength, or weakness, of numbers. Tiny boards assume too much centralized authority to represent key constituencies or carry out the tasks to be addressed.

An organization headquartered in New York City regularly reviews the scope and structure of nonprofit soliciting organizations, principally on behalf of interested individuals. The National Charities Information Bureau (NCIB) looks closely at the financial operations, including the costs of fund-raising and administration and the amount of receipts that are actually allocated to serve the purpose or mission. In evaluating performance against its nine published standards, NCIB is especially concerned about the governance structure of nonprofit entities. NCIB states that a properly governed organization has a clearly identifiable governing structure comprising an appropriate number of elected board members. And while NCIB does not evaluate college and university foundations *per se,* the majority of its standards reasonably might apply to *all bona fide* nonprofit organizations. The 1995 AGB survey revealed foundation board sizes ranging from a low of 4 (one below the NCIB board governance minimum standard) to a high of 251. James Bausch, president of NCIB, says of the latter number, "While NCIB does not address maximum numbers of board members, if we had an inquiry on a charity with a board that large, we'd certainly take a close look at its governance capabilities." The majority of foundation boards responding to the AGB survey reflected memberships ranging from 15 to 50, reasonable in size for the conduct and oversight of a foundation's business.

The size of any particular foundation board should be determined by using a measure attributed to Abraham Lincoln on the subject of the length of a man's legs. They should be long enough to reach the ground. The breadth of a foundation board should be adequate to do its job. Consideration should be given to the size of the alumni body and other key constituencies, the geographic range of the institution's community, and the balance between elected directors and those serving *ex officio.* The foundation board should not assume that *ex officio* members will not participate in the principal activities of the foundation, but the reality of the situation is that none is recruited for that purpose.

To the greatest extent possible, politics should play a vastly diminished role in the selection process. The steering committee should avoid the tendency to select for committee membership a representative from every constituency that might have an interest in the foundation or be tangentially affected by its existence. However, if prevailing local pressures dictate that a dean, faculty member, or student be seated, then steering committee members should select the dean with the most successful history of fundraising, a faculty member with a history of gaining support for campus programs and projects, and a student with a personal background that is consistent with the personal profiles of other board members. To the greatest extent possible, everyone seated should be able to contribute to the mission of the foundation. If other institution bodies (the governing board or alumni association, for example) appoint members to the foundation board and foundation board members are able to influence these appointments, they should do so with a polite request that appointees reflect the profile of other board members. Nothing is more discouraging to a dedicated board member than to realize that a significant percentage of those people seated around the table are not able to help move the foundation toward its goals.

Once a tentative decision is reached on the number of elected directors by the bylaws and articles subcommittee, steering committee members should turn their attention to discussing potential nominees. Again, they need not begin with a blank slate. In the course of any such discussion, certain names will surface spontaneously. The first determinant is the number of steering committee members who expect to serve on the initial board. That number dictates the remainder to be recruited. Some caution should be exercised not to enroll people who simply have a long involvement with the institution. The foundation provides an opportunity at a quite prestigious level to recruit alumni and others who may not have been previously active or involved.

Early attention should be given to the question of gender. The AGB Survey reports that men still dominate college and university foundation boards by a factor of three to one. Beyond this consideration and other applicable social issues, the difficult task is to find the best possible candidates for a score or so of open positions within universes that can number in the hundreds. Again, a few names will naturally come to mind, but the key is finding the best possible people at the optimum level. In this effort, the development staff can be particularly helpful. Past donor lists may contain the names of individuals who have given faithfully, even if below capacity. If the alumni body has undergone an electronic screening by a consulting firm, the staff will have a more extensive list of rated and classified donors and potential donors. The alumni association should have lists of prominent graduates who have been featured in alumni publications or who have received awards for exemplary accomplishment. Similarly, the institution should have lists of awardees, including those people who have received honorary degrees.

The final number of potential directors will easily exceed the potential vacancies. With the list in hand, the subcommittee on directors assumes two tasks: first, set priorities based on the considerations it deems appropriate, and second, create basic recruiting documents. The most straightforward approach to the first task is to reduce the list to a number about twice the anticipated vacancies and then rank the remaining names. The second task requires the design and development of the volunteer board member position description and a compendium of the duties of the board (see Exhibits 4 and 5, Appendix B). In addition to their recruiting value, these two documents and the foundation bylaws serve as materials for a future foundation directors' handbook.

The "shorter list" should be reviewed by the steering committee and the institution president to make final adjustments. Once final, the names are divided among the president, steering committee members, and perhaps members of the development staff for recruiting. The recruiting process goes forward in priority order until the desired number of commitments are in hand. (The committee may wish to hold one or two vacancies open to accommodate the possibility that overlooked names surface when the new board is first convened.). The recruiting effort should be conducted with the same care and courtesy as a major prospect fund-raising call. The key liaison should call the prospective director; talk about the creation or reorganization of the foundation (focusing on the foundation's positive qualities, not the problems and financial woes of the institution); indicate that the steering committee has identified the prospect as one of the highly preferred people to serve; offer to send materials outlining specific expectations and responsibilities; and suggest a meeting and discussion after a short interval. The face-to-face meeting may be conducted by one steering committee member, a committee member and staff member team or—in cases where the prospect is located some distance from the institution—the president and perhaps one other person. If conducted professionally and correctly by those steering committee members who will serve on the board, this exercise will yield positive results. The first board meeting will convene a group of curious, motivated, and excited people.

Getting Under Way

The steering committee need not wait for the board's first meeting event to complete its start-up tasks. Once incorporation is secured from the state and the board members are identified and listed by name, address, and affiliation, the "Application for Recognition of Exemption" may be filed with the Internal Revenue Service. This sequence of events makes particularly good sense in the event the IRS might require clarification of Form 1023, thereby delaying favorable rulings. If all matters are cleared up and the rulings granted ahead of the organizational meeting date, any uncertainties associated with the status of the foundation are dispelled. The foundation will be ready for business. The steering committee will be ready to take on its final assignment.

The steering committee will have no problem constructing the agenda for the first board meeting. The housekeeping and information items will encumber a substantial percentage of meeting time available. As to the former, the board of directors first should constitute itself as the governing body for the foundation. It should then ratify, ideally without amendment, the foundation's bylaws and elect officers. The directors should then decide by some simple procedure (perhaps a drawing of lots) who will serve one, two, and three-year terms so an approximately equal number of terms will expire on each anniversary of the foundation. The chair should appoint permanent committee chairs (usually arranged in advance) and distribute to the members a questionnaire asking for their preferences regarding committee assignments. The directors also should set the time and place for the next several meetings (four per year on average, according to the AGB/CASE survey).

The board education process begins with a review of the facts and circumstances that led to the foundation's creation or reorganization. The directors should consider a few interim performance goals for the months between the current meeting and the annual meeting. Further, they should be asked to consider their personal philanthropy in light of those goals. The president needs to educate or re-educate the directors on the state of the institution, including its vision and the role of the foundation and private support in fulfilling that vision. This presentation is the first of an unending series that showcases the campus and its people. The directors need not be residents of the campus community, but they must feel at home in it.

The ongoing business of the board will be facilitated by a review of "A Basic Checklist for Your Foundation" (Exhibit 1, Appendix B). The foundation board also should help create a long-range plan. The board should be informed of the growth history of successful foundations provided in Chapter 3. These patterns provide benchmarks for emerging foundations. The long-range plan provides a context for annual strategic plans, which are developed principally by foundation staff and reviewed and approved by the board. All parties should be involved with pursuing and implementing annual objectives and long-range goals.

Rationale for a Cornerstone Long-Range Plan

The foundation board is obligated to provide a context for performance for the foundation's staff, ideally in the form of a long-range plan encompassing three to five years. Because the plan is visionary, speculating beyond five years is ill-advised. The long-range plan is not a strategic plan. Rather, it is a set of performance goals based on history and past accomplishments, current conditions, and the outlook for the future. The strategies for pursuing goals are reflected in annual business or strategic plans developed by staff with board input, review, and approval. By approving and adopting each annual plan, board members commit to the strategies germane to them individually. The strategies in the annual plan cover the range of foundation activities—fund-raising, investing, dispersing, and stewardship.

All clichés about planning aside, the planning process has important intrinsic benefits. First, planning develops a mind-set among all directors for the pursuit of lofty and presumably attainable goals. Second, it creates a personal investment in progress. Third, planning builds consensus among the board of directors and the staff, the administration, and others who decide how resources are allocated in support of the institution's mission.

The long-range plan is a public document. It announces that the foundation exists and intends to exist for some time. Further, the foundation's continuing value can be justified by whether it reached quantitative and measurable goals. The endowment increased in value to a targeted level or it did not. Current-year, current-use gifts totaled so much or did not. Costs per dollar raised achieved a benchmark or did not; and so forth. Directors, especially the members of the long-range planning committee, should realize, however, that much of the substance that leads to the plan is not in any way public. The potential of the foundation is, after all, a combination of the capacity of certain people to give and the willingness of others to ask for the gifts. Discussions often center on personalities and individual situations. The working papers and dialogue leading to the published plan should be private. Otherwise the integrity of the plan is compromised and the final product jeopardized.

The long-range plan has great importance as a performance evaluation tool. A foundation's performance on a year-to-year basis is likely to be uneven, despite the best efforts of all involved. Foundations' performances "spike" in gift revenues, a consequence of a large bequest or gift in any given year. Such gifts typically are made on schedules determined by the donors. Bequests, for example, cannot become due and payable on a given date in a particular fiscal year (a fact of some comfort to the potential testator). People on the "outside" who are unfamiliar with the dynamics of fund-raising can be quick to criticize the peak-and-valley performance of foundation gift revenues. In the absence of a long-range plan, a foundation's performance may be best measured on an ongoing basis in terms of a rolling average encompassing three years as described in the 1990 CASE/NACUBO publication *Expenditures in Fund-Raising, Alumni Relations, and other Constituent (Public Relations)*. Such an assessment will "minimize the effect of any unusually large gifts received in a single year."[1] The only problem with the rolling average performance evaluation is that it is an after-the-fact process. A long-range plan has two advantages over it. First, the plan is anticipatory and strategies in the annual business plans can be structured or adjusted with performance to date. Second, the block of time described in the plan provides a clear, comprehensible context for even the greatest skeptics and for the supporting public.

Foundation directors and staffs can avail themselves of any number of planning workshops sponsored by national and regional organizations. Foundation-specific planning guidelines and a working model also are available in a monograph entitled "Introduction to Long-Range Planning for Volunteer Directors of Institutionally Related Foundations."[2] In either case, a review of one protocol for planning is presented here, with the disclaimer that as foundation boards become proficient with the long-range planning process, the process and the outcome will be unique to the foundation doing the planning. Planners will establish their own nomenclatures and procedures as committees and boards work toward and adopt long-term performance goals.

Positioning for Planning

Good plans are the products of good information, some of which should be based on the institution's history in fund-raising and some on the current situation. Staff should provide the historical perspective. The history of fund-raising for public colleges and universities is familiar even if the specific events differ. Within a few years of an institution's founding date, a small group of graduates came together to preserve allegiance and camaraderie through an alumni association. This group or its successor asked peers to make modest, annual contributions to an "alumni fund." Over time, the fund-raising program took on a life of its own and eventually became staffed as a development office. At some point, someone left a major gift to the institution. The gift may have initiated a passive or minimally active foundation, or at least alerted the institution to the "harbinger on the doorstep." In either case, the potential for major gifts became a reality. A "why wait?" mindset evolved among institution leaders, and soon after, a group of like-minded volunteers. Consequently, either a foundation was created or rejuvenated. Those facts define the historical perspective.

Senior foundation staff and the board's long-range planning committee jointly are responsible for defining currently prevailing circumstances and situations. But the external environment also must be addressed. Is giving on an upward trend? Locally? Nationally? Is the country or the region in a recession or likely to be in one shortly? Do the demographics of the alumni base suggest a vast untapped resource? Is all of the ore currently underground? The list of questions about the external environment is not endless, but it is extensive. The compilation of data (lightly seasoned with some opinion) provides the early substance for a "planning resource guide," the committee's close-to-the-vest document. The data also are the platform for prediction and speculation on the environmental conditions that may prevail during the life of the plan. Prognosticating is an enjoyable activity; predictions that find consensus also should have a place in the resource guide.

Moving to Specificity

With the past, current, and future environmental conditions defined and catalogued, the board needs to consider how, philosophically, the foundation will approach its business. The committee may ask staff to make a first pass at philosophical statements regarding governance, general administration, fund-raising, and treatment of resources, for example. Much of the philosophy will be influenced by the paradigm described by Hedgepeth (see Chapter 2). But regardless of the philosophical underpinning, board members will feel more comfortable reacting to and refining *something*, in preference to constructing statements from whole cloth. This refining process reduces the somewhat nebulous philosophy into pragmatic approaches to addressing the foundation's business. Will the foundation raise money for capital projects, or are buildings and grounds chiefly the responsibility of the state? Is the principal purpose of the foundation to augment the education and general budget or to enhance the image and stature of the institution? Will the foundation assume a greater level of risk in anticipation of greater return on asset investment? What is the relationship of the foundation's chief staff officer to the chair of the foundation board? To the college president? How might the institution's vast wish list be condensed to manageable, potentially attractive, and attainable priorities? What percentage of increase in annual operating budgets probably will be acceptable during the term of the plan? In an accelerated campaign environment? Questions and answers should have a place in the "planning resource guide." The budget questions alone provide one basis for developing tentative, long-range fund-raising goals. At a five-year average of 21 cents on the dollar (see Chapter 9 for more on fund-raising costs), how much gift revenue should the projected budgets generate? How much current? How much deferred?

Arriving at a Plan

Over a period of a few months, the resource guide will grow to as many as 30 or 40 pages. The overall objective is to publish a plan of no more than five pages, perhaps with a few appendices. Curiously, the contents of the resource guide support that objective. The combination of history, assumptions, philosophy, and resulting issues provides a solid basis for measurable, ambitious, and attainable performance goals. The plan is a summary statement of the "planning resource guide," disclosing the process, commenting on the environments, revealing basic assumptions, providing an overview of the action plan, and stating explicitly the foundation's long-range financial goals. The plan becomes (1) a method to communicate quickly and succinctly with all interested parties, (2) a basis for annual staff planning, with board input, (3) an orientation tool for recently recruited board members, and (4) a rallying point and self-imposed mandate for the foundation's directors. With the plan in hand, everyone involved is ready to go to work. During the ensuing half-decade, serendipity and fortuity will influence the goals. But the greater share of success will result from directed activity and the activity of directors. Their involvement in the planning process is at least equal in value to the long-range plan itself. ■

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[1] Edwards, Richard A. (CASE), Hyatt, James A. (NACUBO), et.al., *Expenditures in Fund-Raising, Alumni Relations, and other Constituent (Public) Relations*, Council for Advancement and Support of Education, Washington, D.C., 1990, p. 17.

[2] Phelan, Joseph F., "Introduction to Long-Range Planning for Volunteer Directors or Trustees of Institutionally Related Foundations," a presentation to the Third Annual Conference, Society of Institutionally Related Foundations, Aug. 12, 1992.

CHAPTER 5

Active Fund-Raising for Active Foundations

John Lippincott
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"What can I do for you, and what can you do for me?" That simple but salient question was central to the keynote address at the 1995 conference on institutionally related foundations, cosponsored by the Association of Governing Boards of Universities and Colleges (AGB), the Council for Advancement and Support of Education (CASE), and the Society of Institutionally Related Foundations (SIRF). Posing the question was a fund-raising volunteer, Allen J. Krowe, chief financial officer of Texaco and longtime director of the University of Maryland Foundation, Inc. His question was aimed at identifying the fundamental expectations of the director and the development professional as they work together on behalf of an institutionally related foundation. He answered his own question by suggesting five performance criteria for effective foundation directors: (1) provide leadership gifts, (2) provide access to spheres of influence, (3) exercise credibility predicated on stature in the community, (4) offer expertise from their professional lives, and (5) expend energy in the hard work of fund-raising. He also identified five expectations the board has of professional staff: (1) develop and sustain a meaningful role for each director, (2) articulate a clear connection to the institution's mission and strategic plan, (3) prepare adequately for board meetings and fund-raising calls, (4) provide feedback and deserved recognition, and (5) manage daily operations in a sound and professional manner.

He encouraged every foundation to undertake the exercise of clarifying expectations, an exercise particularly relevant for active foundations, where the role of the volunteer goes beyond investment oversight and includes direct involvement in the fund-raising process. Our intent in this chapter is to offer foundation directors and university leadership an overview of the four major elements of that process—identification, cultivation, solicitation, and stewardship—so all may participate in making their foundations truly "active."

Of those responding to the 1995 AGB/CASE survey of institutionally related foundations (see Appendix A), 81 percent identified theirs as "active." Moreover, nearly a third indicated that 100 percent of their directors were involved in fund-raising activities on behalf of the institution. Thus, a clear need exists for directors to understand in some detail their role as fund-raising volunteers. Correspondingly, active foundations need to become increasingly active. The fund-raising climate of the 1990s and beyond will be characterized by stiff competition, ambitious campaign goals, compelling and competing needs from social-service agencies that have lost government support, and sophisticated donors who demand more from their "investment" of charitable dollars. In this climate, the fund-raising volunteer will provide the strategic advantage for colleges and universities, far more than a slick case statement or clever mass mailings. Active fund-raising volunteers also will provide their own measure of financial support for the institution. In attracting others to donate, they tend to self-solicit. A 1988 Gallup poll for the Independent Sector found that the average annual contribution for those who volunteer was nearly double that of nonvolunteers.

Focusing on Major Gifts

The pyramid of giving is growing steeper: More dollars are coming from the donors at the very top. Recent data indicate that roughly 95 percent of the total value of gifts to a college or university come from just 5 percent of its donors. Not only do major gifts provide the most funds, they are also the most cost-effective, requiring an investment of approximately 10 cents per dollar raised compared with as much as 50 cents per dollar raised through annual giving programs. For these reasons, the *major* gift should be the *major* emphasis of a foundation's fund-raising program, especially as the program increasingly involves volunteer board members. For these very same reasons, institutions and foundations recently have created staff positions dedicated exclusively to the acquisition of major gifts.

This principal focus should not diminish the importance of an aggressive annual giving program with its components of phonathons, direct mail campaigns, class gifts, and corporate matching gifts. Annual giving programs are valuable not only as a short-term source of unrestricted operating funds but also as a long-term strategy in establishing traditions of giving that will lead to major gifts. In fact, most major gifts come from individuals who years earlier were donors who made modest annual gifts. The University of Iowa, for example, reports that those who eventually donated more than $1 million in a single gift to the institution had been giving for more than 20 years prior to making their major gift. Thus, the annual giving program provides the broad base from which the pyramid of giving can reach new heights. The foundation may leave annual fund management to the institution, or it may choose to manage the effort to ensure continuity in fund-raising or to secure operating revenues from a share of unrestricted gifts or through a short-term investment strategy. Regardless of where the annual fund is managed, its execution is primarily a staff function. Directors should exercise some oversight responsibility to confirm that the program is productive, well managed, and adequately supported. Also, they occasionally may play a more active role in annual fund events to "show the flag" on behalf of the board. Nevertheless, foundation directors should view their primary involvement in fund-raising as the pursuit of major gifts. Since 90 percent of private philanthropy comes from individuals, 6 percent from independent foundations, and 4 percent from corporations, according to the Foundation Center, this chapter focuses on the individual as a potential donor.

Several demographic factors are worth noting in relation to major donors. Individuals tend to make their largest lifetime gift between the ages of 65 and 70. In coming years, this age group will grow most rapidly of all demographic groups as baby-boomers age and life expectancy increases. These facts argue for a fund-raising program that seeks to develop a pool for major gifts in the next two decades by maintaining long-term relationships with donors and gradually upgrading current levels of giving. The fund-raising program also should pay greater attention to the needs and interests of women donors, a growing influence in philanthropy. Women's institutions account for 2 percent of all colleges and universities but represent 40 percent of the top schools in per capita giving by graduates. Coed institutions need to recognize this fact and employ fund-raising approaches that are more inclusive of women.

The most remarkable change in philanthropy in the last 30 years, according to Bruce McClintock, chairman of the board of Marts and Lundy, a fund-raising counseling firm, is the shift away from "old money." He notes that in the 1990s, almost every significant gift has come from individuals who made their fortunes during their own lifetimes. For the fund-raiser, this change suggests that major donors will make gifts less from a tradition of giving and more from a sense of gratitude for their own success.

Identifying Prospective Donors

In fund-raising, who you know *and* what you know are of equal importance. The foundation director has an important role to play in both aspects of donor identification. The "what you know" of fund-raising is usually the product of the prospect-research and donor-research office, which may be located either in the foundation or host institution. By understanding the nature and resources of the research operation, a foundation director becomes a key provider and a key consumer of information about prospective donors. Research office files contain a solid base of relevant, reliable information about prospective individual, corporate, and foundation donors—the *sine qua non* of productive and cost-effective development programs. Good research makes the difference between scattershot staff work yielding a few lucky hits and targeted solicitations that have a high "P/E" (payoff to effort) ratio.

Conducting Internal Research

The most obvious internal reference sources are alumni and donor records, print and electronic. According to the Council for Aid to Education as reported in an edition of an AGB publication titled *Necessities* (1995), alumni provided 28 percent of all giving to higher education in 1993–94, the largest share; therefore, they represent the best starting point in searching for major donors. Previous donors should be high on the fund-raiser's list as well, since they are the best source of subsequent major gifts. A good computer database of alumni and other donors enables the foundation or institutional research office to compile detailed biographical information on potential donors, records of their participation in campus activities and events, their service on boards and committees, and an index of their correspondence and personal contacts. Some electronic databases also allow the researcher to cross-check alumni and donor records with listings of corporate and foundation boards and demographic databases that screen for income levels and lifestyle characteristics. Such screening techniques produce lists of "suspects," from which the staff then culls "prospects."

Because a comprehensive computer database with user-friendly search functions, report-writing capabilities, and fields for tracking contacts is a vital tool for the research office, it is a sound investment for the foundation or host institution. Campuses with antiquated systems or no system should consider acquiring one of the many software packages now available to support fund-raising programs. With years of refinement and increased competition, these systems now are far more powerful and far less expensive than they once were. In considering expense, the purchaser should include the cost of annual maintenance and support agreements.

Prior to acquiring a new system, staff members should develop specifications, identify potential vendors, contact other customers, issue requests-for-proposals, and review competitive bids. Generally, this thorough process consumes up to a year; implementation of the new system typically takes two more, largely depending on the condition of the institution's current database. While developing a good electronic database is time-consuming, the start-up effort is more than offset by the time savings a well-designed and well-maintained system will generate. The research office staff and technical support staff should play active roles in the acquisition and implementation phases. In addition, board members with relevant expertise may prove helpful in reviewing proposals and negotiating a contract. When the University of Maryland Foundation, Inc., was acquiring a new system, the staff sought the counsel of a board member who headed his own software development company. He not only played an active role in the process, but he also contributed the time and expertise of his staff. The result was nearly $150,000 in savings on the final purchase price.

An effective alumni and donor database requires good software and hardware and good people. The foundation or institution must invest in a research staff to manage the system and input the data. Without this investment in human resources, the investment in computing resources will be largely wasted. Similarly, the organization must invest in data collection through intensive research that may include formal surveys of key constituencies.

Beyond technology, internal print sources are valuable in identifying prospective donors. Such sources include yearbooks, institutional histories, alumni directory questionnaire responses, and library archives, all of which lead to connections with prominent local families, companies, or community groups. Campus student records also may help identify families interested in supporting the institution, although careful attention should be paid to rules and regulations governing the privacy of such records. Annual reports of the institution and foundation offer information on past gifts and individuals who have a special relationship with the institution. And, of course, the research office files—even in this computer age—remain a valuable storehouse for hard copies of newspaper clippings, correspondence, and telephone and visit "call" reports regarding donors and prospective donors.

Using External Resources

Among the external databases available for donor research are a host of print directories, listings, indexes, and annual reports. Many now are available on CD-ROM, which increases their utility and decreases the physical storage space they require. The research library also should subscribe to regional newspapers and magazines, business journals, and various periodicals that report on private support for higher education, including the *Chronicle of Philanthropy* and the *Chronicle of Higher Education*. In addition, extensive bibliographies of fund-raising reference works are available from major professional organizations and associations, including the American Prospect Research Association, the American Association of Fund-Raising Counsel, the Foundation Center, the Grantsmanship Center, the Council for Aid to Education, the Association of Governing Boards of Universities and Colleges, the Council for Advancement and Support of Education, the Society of Institutionally Related Foundations, the National Society of Fund-Raising Executives, and the Association for the Study of Higher Education (publisher of the *ASHE-ERIC Higher Education Reports*). Many of these organizations also serve as information clearinghouses, and most maintain extensive libraries of materials and publish books, indexes, guides, and periodicals.

Also available externally are a rapidly expanding number of electronic research services. Fee-based services such as Lexis Nexis and DIALOG enable the researcher to access an array of newspapers, other publications, and databases and to scan them for references to individuals or subject areas. Many institutions are linked to the Internet, which provides access to a marvelous wealth of information. For fund-raising research purposes, institutions should make the modest investment in software products that facilitate the search process through the vast, often Byzantine resources of the World Wide Web. These software search packages, called "search engines," help the user find, almost instantaneously, hundreds of listings of grants received by universities nationwide and detailed descriptions of grant-making agencies and foundations. The Internet also hosts a variety of bulletin boards that enable researchers to post queries and gather tips from colleagues and peers around the world.

Other external sources of information that help identify prospective donors include listings of real estate sales, stock transactions, and tax assessments, many available on-line. An additional reference source on grant-making foundations is the annual return filed with Internal Revenue Service (IRS Form 990-PF), which includes information on operations, assets, and grants. It is available for inspection at the foundation itself and upon request from the IRS. Researchers also can obtain reports on foundation activities through the nationally focused Foundation Center and their state government office responsible for foundation oversight, often the secretary of state or attorney general.

Maximizing the Best Resource

Even with all of the sophisticated print and electronic resources available for donor research, the most valuable source of information remains the memories of individuals already involved with the institution and foundation. Good recollections make good connections. Fund-raisers and researchers should consult regularly with current donors, faculty, and staff for their ideas on potential donors. Foundation directors, in particular, should be engaged regularly and directly in the identification process. According to the 1995 AGB/CASE survey, nearly 90 percent of respondents said board members participate in prospect identification. The fund-raising staff should review with board members the giving potential of professional peers and colleagues, fellow members of corporate and community boards, social acquaintances, neighbors, and relatives. Of course, such discussions should be treated with the highest degree of confidentiality and sensitivity. The staff should avoid compromising any board member's relationships.

Board members, nevertheless, must be reminded that personal contacts—the "who you know" of donor research—are extremely powerful tools in attracting private support. Indeed, one study of corporate grant-making programs revealed that 74 percent of donations came in response to a request from a friend or colleague of a company executive.

Among others who can help identify prospective donors are institutional vendors and contractors. Even the competition (that is, other universities or foundations) can be a fertile source of ideas and contacts, a reflection of the remarkable spirit of collegiality within the grant-receiving community. Conferences and workshops, professional associations, and organizations devoted to philanthropy facilitate the exchange of information and networking among fund-raisers. The staffs of these organizations are themselves important personal sources of information.

Creating Useful Files

Whatever the source—on-line service, institution archive, or "gray matter"—the research effort must be targeted. Given the vast amounts of information available, the research effort can quickly amass lists of prospective donors that exceed the capacity of the fund-raising staff. Therefore, staff and volunteers must engage in a winnowing process to set the dimensions of the task at a level consistent with available time and resources. Too little attention paid to too many prospective donors yields too few results. This can be prevented by setting criteria and establishing priorities for the list of prospective donors who should be contacted—the priority list. This task is a logical one for a team of professionals and volunteers; foundation directors are key players. Members of the research office staff also should participate actively in this exercise so they can direct their efforts toward those individuals under consideration for the priority list.

Among the factors the team should consider in assembling the priority list are (1) the strength of an individual's connection and loyalty to the institution, (2) past record of giving to the institution or other institutions, (3) known capacity for giving, (4) the kind and amount of contact the prospect has with the institution, (5) expressed interest in the goals, values, and projects of the institution, (6) commitment to the needs of the community and the region, and (7) level of interaction with others affiliated with the institution, including, of course, foundation directors. Many institutions apply a formal rating system to classify prospective donors according to their capacity and apparent readiness to give. Ideally, the rating system will be incorporated in the development database to help select individuals and set appropriate timing for and level of the "ask."

Matching Prospects with Priorities

To target the fund-raising effort, identifying institutional priorities is equal in importance to qualifying and quantifying donor potential. The *institution's* strategic plan should be the basis for the foundation's fund-raising initiatives, short-term and long-range. By clearly identifying the goals and needs of the host institution and determining those that are well suited to private support, the fund-raising team focuses its efforts and ensures that the gifts it secures are consistent with the institution's mission. In confirming the importance of the institution plan as the centerpiece of the fund-raising effort, the AGB/CASE survey found that 76 percent of respondents said fund-raising priorities were set by the institution's president.

Tracking Prospect Involvement

In this initial phase of the fund-raising process, one important step often receives the least attention: prospect tracking. Proper tracking requires an awareness and cataloging of research that has been done, approaches that have been made, points of contact and communication that have occurred, and call reports that have been filed. Tracking greatly enhances the effectiveness of all members of the fund-raising team. Board members should receive tracking reports regularly for those donors in whom they share some interest. Nothing is more embarrassing than for a board member to encounter a friend or colleague who has made a major gift and be ignorant of it.

Good tracking pays off in specific solicitations and in building the database, which serves to support other solicitations. It also pays off by capturing institutional memory permanently so personal knowledge is not lost as fund-raisers move on to other employers. Because the average length of service for a fund-raiser is just a few years at a single institution, a comprehensive tracking system is the only way to ensure continuity in the fund-raising program. So important is this function that some institutions withhold travel reimbursements pending receipt of a fund-raiser's call reports. A more positive, less coercive approach is to devise a clear overall plan for each fund-raiser. Tracking, as a component of that plan, becomes a matter of systematic reporting on what steps were taken with what results.

Cultivating Prospective Donors

The agricultural image of "cultivating donors" seems somewhat inappropriate. Prospective donors are not lying fallow like a field waiting to be tilled. Instead, they are people of means who want to feel good about doing good. Toward that end, they need to have a clear understanding of an institution's mission, a high level of trust in its management, and above all, a strong sense that their gifts will make a significant difference in meeting compelling needs. In this context, the "cultivation" stage of the process really is "edification." Cultivation is preceded by the kind of solid research described above. Before the prospective donor can be educated about the institution, the institution must become educated about the prospective donor. The staff should prepare a brief background document for the fund-raising team on each prospective donor on the priority list. This document—no more than two pages—should include a standard biographical sketch and information consistent with criteria used in selecting the individual during the identification phase. Above all, the background material should suggest possibilities for matching the donor's interests with the institution's needs. Equipped with this information, the fund-raising team will be ready to develop a step-by-step approach to educating the prospective donor and to maintaining communications over an extended period of time.

Making Meaningful Contact

The starting point for this process is an assessment of the person's current levels of knowledge and involvement. If no prior contact is evident for a prospective donor or if the prospective donor's most recent contact is more than a decade old, then cultivation should begin with an invitation, not with a solicitation. The invitation may be to any institution event—social, athletic, cultural, academic, or alumni-sponsored—and it should be compatible with the individual's known interests. Alternatively, an institution official and a volunteer first may make a courtesy call on the prospective donor's own "turf," perhaps in the home or office. An invitation to campus then may follow.

In addition to invitations and visits, a number of other activities strengthen the prospective donor's connection with the institution. Adding the individual to mailing lists of important campus publications is an obvious tactic. Representatives of the foundation or institution may ask prospective donors to serve on boards and foundation committees or join advisory councils related to the individual's interests and expertise. In the absence of formal councils, the institution can invite prospective donors to participate in meaningful discussions related to institution planning. Institutional leaders also may ask a prospective donor to serve as an advocate for the institution by offering supportive testimony in the state capital, writing letters to local newspapers, and meeting with other prospective donors and encouraging their support. Such personal advocacy often leads to personal philanthropy. And the institution also has the capacity to honor individuals for professional achievement or for contributions to respective professions or communities. Common examples range from bestowing special privileges, holding public receptions, hosting private dinner parties, and awarding honorary degrees.

Enhancing Donor Confidence

The cultivation phase requires foundation directors to step to the fore. The board members' credibility, expertise, and example are among the most powerful marketing tools available to a fundraiser. Whether in person or in writing, the implied or overt endorsement by prominent, respected board members for an institution or project often inspires potential donors to make substantial contributions. The ultimate endorsement is, of course, a board member's own gift; according to the AGB/CASE survey, 94 percent of foundation directors give personally. Board members' contributions demonstrate their strong belief in the institution and its programs and their strong faith in the foundation's management of gifts. Since they are part of that management, they have a vested interest in exercising due diligence of foundation operations and the investment portfolio.

Much of the rationale for establishing foundations centers on donor confidence. People who would contribute to public institutions of higher learning frequently are leery about making a gift that will be managed by the state. Some fear the state will use gifts as an excuse to reduce the appropriation to public institutions. Others fear the state will not invest the funds wisely. Therefore, foundations have a special obligation to reassure prospective donors that their gifts will be well managed and applied to intended purposes. The best reassurance is a personal one from a board member who also is a donor and a person of stature in the community.

Especially valuable to the cultivation process are board members whose professional expertise in management and finance permits them to speak or write with authority and credibility on the fiscal management of the institution and the foundation. Increasingly, donors are interested in knowing that these organizations are making tough decisions and operating with high levels of efficiency. They do not want to make a gift so an institution can conduct "business as usual" or delay getting its financial house in order. The message that the institution and the foundation are well managed is best delivered by a volunteer who is known as a capable business executive. The AGB/CASE survey found that foundation directors are typically executives of small or large businesses and banking, financial, insurance or real estate companies. As nonacademics, these board members and their board peers also serve as interpreters of the institutional mission and goals for the lay person. They also can be a friendly source of invitations to campus events, offering to accompany prospective donors and once on campus, introduce them to the institution and foundation leaders.

In the final analysis, giving is a personal matter. People give to people. The donor needs a personal connection, and often the best connection is with a volunteer. Fund-raising volunteers should be assigned to work with specific prospects and donors. In some cases, the volunteer may make the initial introductions to institution leaders. In other cases, the volunteer will remain a long-term contact with a prospective donor. In either case, the president also must develop a personal relationship with major prospects and major donors and treat them as special members of the institution's family. Regardless of the specific tactics, the cultivation process requires time, patience, and diligence. Stories are legion of fund-raisers who communicated with a prospective donor for decades prior to the individual making a gift. Often enough, the results are worth the wait and the hard work. The relationship with a donor should be treated as a lifetime relationship of mutually satisfying interactions, not a lifetime of pestering.

Soliciting Major Gifts

The fund-raising team cannot wait forever to make a request. The cultivation process action plan includes a specific timeline leading to the "ask." The duration of that timeline should reflect length and strength of the prospective donor's association with the institution, immediacy of the need for which a gift is sought, and availability of staff time to pursue the planned approach. However, even in the most conservative scenario, the institution should not extend an active cultivation initiative beyond two or three years before making a specific request for support.

For purposes of organizing information, a distinction is made here between "current-use" gifts and "planned" gifts. In reality, however, this distinction increasingly is indistinct. An outright, current-use gift provides immediate value to the institution and yet may have long-term estate planning value to the donor. At other times, an outright "special" gift (real estate, for example) is treated by the donor as a current donation even though the institution may not see any direct benefit until it is sold some years later. Accordingly, in the solicitation process, the fund-raiser needs to be flexible in deciding whether an outright or planned gift is more appropriate for the donor and the institution. What may begin as an approach for one type of gift may shift quickly to another type. Moreover, the fund-raiser should treat the solicitation process as long-term and evolutionary. Today's request for an annual gift is the precursor to a future request for a planned gift.

Pursuing Current-Use Gifts

Just when, how, for what, for how much, and by whom should the request for a major gift be made? No objective answer satisfies the question. The fund-raising team has to make a subjective judgment, informed by an analysis of the interactions with the prospective donor during the edification or cultivation phase. If the prospective donor remains ill-informed about the institution and unsure of its needs, then a request is premature. If the prospective donor is refusing all invitations and forms of contact, then the proper hour probably has come and gone. The central issue for timing the request remains the prospective donor's comfort level with the institution, the foundation, the fund-raising objectives, and the fund-raising team. No one has yet invented a "prospect comfort meter," so fund-raisers must rely on their human sensors. Often, board members are the best human sensors, since prospective donors are more forthright with volunteers than they are with professional staff.

Other considerations for timing include the tax calendar and any publicly reported changes in the individual's income or assets. In some contrast, timing for foundations and corporations will be tied to fiscal years, funding cycles, board meetings, and published application deadlines. Direct contact with foundation and corporation staff can be extremely helpful in determining appropriate timing (staff may even agree to review a preliminary draft of the proposal).

In any solicitation venue, when the fund-raisers agree that the asking hour is at hand, they also must agree on how best to make the request. Unless circumstances preclude it, a personal visit with a prospective donor is the proper forum for requesting a major gift. The fund-raisers should request an appointment in a letter, fax, or phone call stating the general purpose of the meeting. A follow-up call sets the appointment, and a confirming call is appropriate just prior to the actual meeting date. Materials related to major gift solicitations include a formal proposal or memorandum of understanding. Depending on the nature of the gift and the program it will support, as well as the extent of prior discussions with the donor, the written document may be sent in advance of the meeting or presented during the meeting. In either case, it should be represented as a draft for the donor's review. In all formal communications—written and oral—regarding the proposal, fund-raisers should clarify whether the gift is being sought on behalf of the foundation or the institution. While state regulations on this matter vary, a gift solicited in the name of the institution generally must go to the institution, not to the foundation. Where appropriate, every effort should be made to direct major gifts to the foundation.

Many books have been written on the style and substance of proposals. Essentially, a proposal's style must be clear, concise, and emphasize the human dimensions of the program or project under consideration. The proposal should include an executive summary, a brief description of the organization and its mission, a compelling statement of need, a layperson's overview of the project or program timeline, a budget (including sources of funding beyond the donor's gift), and an indication of how the results will be evaluated. If the gift is to be made to the foundation, an explicit statement to that effect should be included. A cover letter on official letterhead should be signed by the president of the institution or a senior official of the foundation.

The request should clearly tie the interests of the donor to the needs of the institution. News stories about institutions returning multimillion dollar gifts to donors provide object lessons on what happens when those interests and needs fail to coincide. Such stories also justify the importance of spelling out explicitly how a gift will be used. Above all, the proposal should be consistent with the institution's mission, priorities, and strategic plan, should have the sign-off of the president, and must never promise what cannot be delivered.

While most institutions prefer unrestricted gifts that can be used at the discretion of the president, most donors prefer to make special purpose, restricted gifts. In recent years, virtually all of the growth in private giving to colleges and universities is in restricted gifts. Either way, most current-use gifts are made in cash or a pledge of cash to be paid over a reasonable period of time. The donor may elect, however, to make a gift of stock, tangible assets, or real estate. If the value of such property has appreciated during the period of ownership by the donor, significant tax advantages are realized by giving the asset to the institution before converting it to cash. In most cases, donors claim the current value of the gift as a tax deduction and reduce their capital gains tax liability on the increased value. (The amount of the reduction depends on the type of property, the nature of the organization, and whether the organization intends to use the property or sell it.) Another option is a less formal and less frequently used instrument for giving assets called a "bargain sale." In this arrangement, the donor sells an asset (real estate, a boat, or artwork, to name a few examples) to a charity for less than its market value. The charity then sells the asset on the open market and retains the proceeds. The donor can take a tax deduction for the difference between the price paid by the charity and the fair market value as determined by an independent appraisal. In an *installment* bargain sale, the charity pays for the asset over time, and the donor claims any forgone interest as a charitable contribution for tax purposes.

How much should the fund-raiser request? That's the $64,000 question, but not necessarily the amount. One rule of thumb says the right amount is somewhere between "a gulp and a gasp." Here again, human judgment—informed by good research, experience in the dynamics of fund-raising, and repeated contact with the prospective donor—is the only real guide. The lower limit, or floor, for the request should be at least 10 percent above the donor's most recent known charitable contribution. The ceiling is 10 percent below an amount that might adversely impact a donor's lifestyle or financial security. In determining who should make the request, donor comfort is an essential consideration. A fund-raising team should never "gang up" on the prospective donor. Under most circumstances, no more than three people, preferably two, should be involved in the major gift request visit. If the fund-raising team has three people, the contingent might include the president of the institution, a foundation director, and a staff fund-raiser. At least one member of the team should be familiar to the donor. At this stage, of course, the better rule is that all faces be familiar.

The same strengths a board member brings to the cultivation phase can be applied to the solicitation phase. In the AGB/CASE survey, 80 percent of respondents indicated foundation directors "ask for money." The voice of the volunteer has a level of credibility that voices on the payroll cannot match. The board member often is viewed by the donor as a peer, a friend, and an advisor; the board member should fulfill those roles by making sure the donor's interests are paramount in the final negotiation of the gift. In the course of negotiating, the fund-raising team should avoid a hard-sell approach. While pressure tactics sometimes yield a short-term result, that outcome frequently irritates donors and sends them to other organizations with which they feel more comfortable. The hard sell rarely produces a major gift commensurate with the donor's capacity. Major gifts result from a long-term relationship built on trust and sensitivity to the donor's needs and wishes.

If the answer to a solicitation is "no," the fund-raisers should graciously acknowledge the donor's willingness to consider the proposal. They then may decide to ask the prospect if another level of gift or another project might be placed on the table for consideration. If the answer to a solicitation is "maybe," the fund-raisers should explore what information or assurances would help the donor reach a decision and should seek to establish a timeframe for further consideration. If the answer to the request for a gift is "yes," a thank-you—not champagne—is in order. Also in order is a signed agreement, contract, or memorandum of understanding.

Understanding Planned Gifts

Enormous potential lies with gifts that are to be made over time or in the future, such as at the passing of the donor. While some of these donations are properly termed "deferred gifts," the full range of possibilities is better described as "planned gifts." The potential for planned gifts is clear from three widely reported facts: $13 trillion dollars will pass from one generation to the next between 1995 and 2010 (the largest transfer of wealth in the nation's history); 80 percent of institutional endowments result from estate gifts; and the cost of raising planned or future gifts generally is estimated at less than five cents on the dollar. This economy of scale must be measured against the passage of time. The potential of a planned gift is just that: potential. Years or even decades may pass before the institution receives the full benefit of a planned gift. In the interval, a variety of circumstances might significantly affect the value of that gift.

Planned gifts carry potential for great benefit, but if they are not handled with the necessary requisite care and expertise, an equivalent potential exists for problems. The discussion that follows briefly describes each of the major forms of planned gifts. But no written presentation can substitute for a well-trained professional staff member working in close consultation with legal and financial experts. This team approach is necessary to structure what can prove to be complex arrangements. State laws governing planned gifts vary greatly, as do institutional governing board policies. All of the cautions that accompany the fiduciary responsibility of foundation directors apply to the solicitation of planned gifts, only more so. A perfectly legal but poorly executed planned gift can seriously jeopardize a foundation's assets and its nonprofit status.

The fundamental premise underlying planned gifts is that they represent the least expensive way for a donor to make a substantial contribution to a charitable organization. Such gifts are advantageous because of estate tax laws. While the highest tax rate for income is 39.6 percent, the highest rate for estate taxes is 55 percent for estates over $3 million. Through a planned gift, the donor can reduce significantly the amount paid in estate taxes and thereby proportionately increase the value of the gift. In addition, planned gifts especially are useful in dealing with appreciated stock or property since the donor can take the current value as a tax deduction, bypass payment of capital gains taxes, and make a gift to the institution that is substantially greater than the donor's initial cost.

1. *Bequests* are the most frequent and most easily understood planned gifts. Donors indicate in their wills that some portion of their estate is to be given to an organization upon their death. A "residual" bequest leaves to the institution the balance of the estate after specified portions have been allocated to other beneficiaries. Bequests and some other testamentary gifts are *revocable*; that is, the donor can change the will at any time. Even though bequests provide few assurances to the institution, such commitments are within the comfort level of the potential donor. Therefore, requests for bequests often are a useful way to introduce donors to the more complex forms of irrevocable planned gifts.

2. *Charitable Remainder Trusts* also are popular among irrevocable planned-gift instruments. Through a remainder trust, the donor places an asset in an account managed by a trustee and

receives lifetime income from that account (usually the amount of income is the lesser of a fixed percentage of the asset's market value or the interest earned by the asset). Upon the donor's death, what remains of the asset is turned over to the charity. In addition to the income stream, donors also receive a tax deduction for the value of the asset that will pass to the charity. The donor, the foundation, or another financial institution may serve as trustee. However, individual foundation employees or board members should assiduously avoid serving as trustees. Doing so may constitute a serious conflict of interest. Foundation staff and volunteers also must keep in mind that a charitable remainder trust carries with it some small risk, especially if the instrument is poorly drawn, that the promised income to the donor will exceed the annual interest earnings and eventually consume the value of the asset, leaving the foundation with nothing.

3. *Pooled-Income Funds* perform much like a mutual fund operating essentially under principles similar to those of the charitable remainder trust. Often the foundation sets up a pooled-income fund for the benefit of its donors. A donor invests in the fund, receives income based on the fund's performance, and leaves the principal to the charity at death. Here again, the donor receives income as well as tax advantages.

4. *Charitable Gift Annuities* also may be established by a foundation. In this case, donors contribute assets to the foundation in return for a guaranteed, lifetime fixed income. The foundation retains what is left of the assets following the donor's death. The terms of the contract, the amount of the guaranteed income, and the donor's longevity could conceivably deplete the remaining assets. And because a gift annuity functions much like an insurance policy, the foundation may be liable for continuing payments in excess of the value of the donated assets. One attraction of gift annuities is that the institution has the option of spending the corpus under specified conditions while a donor is alive and can enjoy seeing the impact of the gift.

5. *Charitable Lead Trusts*, unlike other instruments cited above, do not require an actual donation of assets to a charity. Some donors prefer to give the income from an asset and have the asset returned to them or to family members after a specified period, perhaps upon their death. The vehicle for such a transaction is called a "lead trust." The asset is placed in a trust, specified income from that asset is paid out to the charity, and the asset eventually reverts to the donor or the donor's family or heirs. This

approach enables the donor to preserve the asset, make a contribution, and gain tax benefits. A charitable lead trust can be a particularly effective way for donors to transfer property to their children and grandchildren.

Life Insurance may be used as a planned gift, albeit one many institutions consider the least desirable. Ideally, the policy names the institution or foundation as owner and beneficiary. Donors can purchase commercially available policies on their own lives or those of family members. However, to receive a tax deduction for a gift in the form of life insurance, the donor must designate the institution as owner of the policy as well as beneficiary. The gift is equal to the cash surrender value of the policy and all premium payments.

As noted earlier, all of these planned giving instruments can be highly complex and carry with them significant legal and financial responsibilities. For this reason, the directors of a foundation, while gaining a basic knowledge of these instruments, also should have a clear understanding of their related fiduciary responsibilities and should seek assurances from professional staff that proper policy and procedures are being followed. When a foundation accepts a planned gift, it accepts a long-term obligation to manage the gift according to the agreement and to comply with all relevant laws and tax regulations.

Ethical considerations require attention as well. A planned gift represents an extraordinary act of faith on the part of the donor and requires donors to acknowledge—implicitly at least—their own mortality. For these reasons, the decision to make a "deferred" gift often is deferred. In seeking such gifts, the staff and the volunteer must be especially sensitive, within reasonable time frames, to the wishes and the personality of the donor.

Even after a planned gift has been made, sensitivity continues to be the watchword. While a donor may have indicated an understanding and acceptance of the agreement, some "surprises" may arise during implementation. An individual may, for example, fail to understand that the "payout" on an annuity is not the same as the rate of return on the investment. Another donor may insist on seeing the full fruits of a planned gift even though the institution does not have access to the assets until after the donor's death. Such reactions underscore the importance of explaining all aspects of a planned gift with great clarity and precision before any papers are signed. Another frequent source of misunderstanding arises from commercial enterprises that market planned gifts as investment vehicles. Planned gifts are, first and foremost, gifts. As such, they require the donor to give up something of value. Donors who expect to improve their own financial status through a planned gift may have been misinformed or misunderstood the circumstances of the gift. Those who solicit such gifts are responsible for ensuring that neither is the case.

This process is facilitated by a carefully drawn, comprehensive contract or memorandum of understanding. This document should be reviewed carefully by legal and financial experts on behalf of the donor and the foundation. A planned giving staff officer never should serve as legal or financial advisor to a prospective donor. The officer may, however, use any of the packaged planned giving software programs to illustrate potential cash flow and tax savings predicated on various timelines and scenarios. Fund-raisers are obliged to advise donors in writing and conversation to consult with their own lawyers, accountants, or other counsel.

Two specific approaches prove particularly useful in the solicitation of planned gifts. The first is direct mail. Because most people are unfamiliar with the concept of planned gifts, they appreciate clear, accurate, and repeated messages describing the nature and benefits of the various instruments well before the fund-raiser makes any specific proposal. A number of commercial enterprises provide planned giving newsletters, customized to include institution-specific information and identification. The newsletters are sent by the vendor or the institution on a regular basis to prospective donors as part of a consistent communications campaign. If the institution or foundation has adequate inhouse resources, they may wish to develop publications for this purpose.

The second approach that proves helpful in soliciting planned gifts involves offering seminars in estate and financial planning to alumni and other prospective donors. These seminars offer a valuable service to the participants by sharing with them information on current tax laws, for example. The seminars also provide a forum for institution or foundation representatives to explain the nature and benefits of planned gifts. Seminars and meetings with "agents of wealth" (attorneys, real estate agents, accountants, and the like) may be held either separately or jointly with seminars for donors.

As with all gifts, a good example is a powerful incentive to donors. Individuals who are pleased with their planned gifts will share the idea with friends and neighbors. Each foundation director, therefore, should consider making a planned gift. Not only will this move lead the way for others, but it also will provide the director a hands-on understanding of the nature and benefits of planned giving. Along the same lines, actual stories and testimonials regarding planned gifts published in campus or foundation publications or the general press will stimulate others to follow suit. The volunteer also can help solicit planned gifts from others. Because of the intimidation factor associated with planned gifts, donors will often look to the volunteer to provide a level of assurance that their personal interests are being protected. As a result, the foundation director has a special responsibility to understand and explain to donors such aspects as the payout policy on annuities. Donors also look to the foundation director to assure them that their assets will be well managed and will earn a healthy return. In fact, the fund-raising team should be prepared to share with donors the five-year investment performance of the foundation. Those who give major gifts tend to be savvy about rates of return and will expect the foundation's portfolio to perform as well as or better than their own personal investments. Donors also may question the foundation's audit arrangements and will take great comfort from reports of consistently clean independent audits.

Because tax laws are a major force behind planned gifts and because the laws are subject to frequent changes, the planned giving officer must remain current in the field. Most of the major associations dealing with philanthropy offer a variety of resources for that purpose. In addition, a relatively new organization, the National Committee on Planned Giving, is dedicated to improving quality and quantity of planned giving through a nationwide, systematic education of professionals, donors, and government officials. The organization provides workshops and conferences across the country.

Providing Donor Stewardship

Whether a donation is current or planned, it carries with it certain responsibilities on the part of the foundation and the institution to ensure it is properly administered. While fiduciary responsibilities of the foundation board—especially those related to due diligence in the management of foundation assets—are addressed in detail in Chapters 6 and 7, another set of responsibilities regarding gifts is of great importance to donors. In the fund-raising vernacular, it usually is referred to as "stewardship," a term that covers obligations to and recognition of donors. It begins and ends with acknowledging the donor's generosity of spirit. Written and oral thank-yous for a major gift should come from institution and foundation leadership as well as from board members. Third-party thank-yous from state political leaders (perhaps in the form of a governor's citation) or fellow donors often carry special significance for the donor. In addition, stewardship involves a variety of activities and a variety of people throughout the organization. It is the responsibility of the institutional chief executive and fund-raiser who secured the gift and the clerk who handles the gift account, the public-relations officer who announces the gift, the foundation director who helped solicit the gift, and most of all, those who benefit directly from the gift.

Satisfying Obligations to Donors

First among the obligations of the institution and foundation is the prompt issuance of a gift acknowledgment, including a receipt. Ideally, the acknowledgment should be mailed within three days. The acknowledgment and the receipt have significance as matters of etiquette and law. The legal value of the receipt stems primarily from the donor's need to meet IRS regulations. Those regulations, amended in 1993 and still current at the time of the release of this work, require donors to obtain receipts for gifts of $250 or more prior to filing IRS Form 1040. The donor must also file Form 8283 with the 1040 to substantiate all noncash gifts over $500 (specific filing requirements vary with the level of the gift). If the foundation sells the noncash gift within two years, then it must file IRS Form 8282. Obviously, the foundation staff has a legal responsibility to satisfy all relevant IRS regulations and filing requirements for the foundation. Staff should view stewardship as helping the donor to do so as well.

The acknowledgment also has legal significance as a reinforcement for the signed memorandum of understanding, contract, or agreement (see Appendix B, Exhibit 7) that sets out the purposes and details of each gift. The acknowledgment should be consistent with and make reference to the document that governs the gift and should originate with the entity (institution or foundation) to which the gift was directed. The benefiting institution also has an obligation to provide the donor with reports on the use of the gift. Those reports may be stipulated by the memorandum of understanding and should conform to any specified schedule and contents. Even if reports are not required, every major donor should receive periodic correspondence indicating how the money has been used and the impact it has had. Donors particularly appreciate hearing directly from people, such as scholarship recipients, who benefit from the gift. If the donor is deceased, reports should be sent to the descendants, who may choose to continue the legacy by adding to the original gift.

With planned gifts, the most significant obligation is to honor the terms of the agreement. Above all, any lifetime income payments to the donors originating with annuities or other instruments should be made according to agreed-upon schedules. The issuance of payments provides an additional opportunity for ongoing communications with each donor. With the check, the institutional or foundation leadership may include greetings or updates. On some occasions, a payment may be delivered by hand. Gifts that memorialize a family member carry special obligations. Great sensitivity should be exercised by the institution in honoring the wishes of donors who make gifts in the name of others. The form of recognition should be reviewed carefully with the donor, tastefully implemented, and perpetually maintained.

Recognizing and Honoring Donors

Donor recognition should be to a gift as "bless you" is to a sneeze: automatic, polite, and motivated by good will. Donor recognition also makes good business sense since an acknowledged gift is often a repeated gift. Donor recognition opportunities are many in number and should be scaled to the size and nature of the gift. Consistency is key when an institution honors its benefactors. Donors never should have reason to feel slighted. Great care must be taken to respect a donor's wishes regarding recognition. Some prefer anonymity; others welcome fanfare. With major gifts, the matter of recognition should be discussed thoroughly with the donor and the agreed-upon method should be included in the memorandum of understanding and in the donor's permanent file.

The most common form of recognition is special giving clubs or societies tied to the level of a contribution. Additional or separate giving clubs may be established for those who make early gifts (charter memberships), those who make planned gifts, and those who include the foundation or institution in a currently drawn will. Club or society level memberships usually are published in foundation and institution publications. Some organizations also print donor lists in external newspapers or newspaper supplements. Frequently, certain privileges, tokens of appreciation (pocket calendars, for example) and activities (such as tickets to cultural performances) will accompany membership in a giving club. In such instances, the foundation has a responsibility to provide donors with a statement of the fair market value of these benefits for tax purposes. Under current IRS regulations, if the value of such tokens is the lesser of $6.34 (the inflation adjusted figure for 1995) or 2 percent of the gift, then the entire donation is deductible. Otherwise, donors must subtract the fair market value of the token from whatever charitable deduction claimed on their income tax. Similarly, donors who purchase tickets to fund-raising events must subtract the fair market value of any benefits they receive (for example, a meal) from the ticket price before claiming a deduction.

Special events such as dinners, receptions, half-time salutes, and other public functions at which the donor is guest of honor are highly appropriate opportunities for donor recognition. In close consultation with the donor, major gifts also can be publicly announced through news releases or press conferences. Publicity about gifts reflects well on the donor and the institution and may serve as an inspiration to other prospective donors. However, many benefactors shun publicity out of humility or out of concern that the announcement will generate a flood of requests. At the other end of the scale in terms of magnitude and visibility, another customary form of donor recognition is to attach the donor's name or the name of a donor's loved one to a campus fund, program, or facility. The institution should maintain a current list of "naming opportunities," including guidelines that are fully understood by the fund-raising team. For example, the policy of the University of Maryland System board of regents indicates a preference for the commemoration of donors' generosity through the naming of scholarships, programs, or professorships. A request to name a building for a donor "will normally receive favorable consideration only when the gift exceeds 10 percent of the cost to construct or substantially renovate the building." The institution should issue guidelines on the propriety of and the protocol for awarding honorary degrees to donors. Since the awarding of honorary degrees is linked to the central mission of the institution, representatives of the academic community should be involved directly in the consideration of donors as potential recipients. The wisest course is to reserve honorary degrees for exceptional achievement, service, or heroism. A donor should be honored for such reasons, not as a form of recognition for a gift.

An important element in all forms of recognition is the active involvement of the institution and volunteer leadership. Foundation directors should view participation in stewardship activities as a primary and pleasant responsibility.

Special Thoughts for the Fund-Raising Team

Whatever its degree of activity, a foundation must employ a team approach if its fund-raising strategies are to prove successful. Given the complexities and the vagaries associated with charitable giving, the involvement of several players will increase the likelihood of success. Finding the right connection and chemistry between the donor and the institution often requires several points of contact. Members of the foundation and governing boards can be key.

Even with a team approach, individuals on the professional staff should be assigned the lead responsibility for each prospective major donor. The team leader needs to provide a coherent and appropriate strategy for every assigned prospect. The team leader assigns roles to the other team members and keeps the effort centered on the interests of the donor and the institution, not on the interests of the fund-raisers. Team leaders are obligated to use the volunteers' time wisely, being careful not to overextend a welcome. The adage that busy people make the best volunteers serves as a reminder that foundation directors usually are under enormous time pressures. Because volunteerism has plateaued in the last 20 years, an institution or foundation must treat its volunteers as an increasingly valuable asset.

For their part, volunteers must be careful not to allow their enthusiasm for a pet project to overshadow the needs of the institution. Foundation directors should approach the fund-raising role as advocates for philanthropy, not as experts in gift solicitation or as official representatives of the institution. That caveat aside, strong volunteer involvement is the hallmark of the effective fund-raising program. As noted at the outset, the active nature of a college or university foundation is a product of the activity level of its volunteer board. ■

CHAPTER 6

Managing Assets, Part One: The Effective Foundation Investment Committee

John W. Guy, C.F.P.

Your new automobile has a warranty. Your new investment vehicle does not. During the warranty period, an automobile dealer will make repairs without cost even if your driving habits caused the problem. But if you and your investment committee bring about poor investment results, no one provides relief. Therefore, the college or university foundation investment committee must organize itself to avoid mistakes and create a management style that is effective, understandable, consistent, responsive, and timely. It also must judge itself with the same rigor with which it evaluates its professional advisors.

Important studies argue that one element of investment policy—the asset allocation decision—is more important than timing, more important than stock selection, and more important than the person who makes specific investment selections. Gary Brinson, Brian Singer, and Gilbert Beebower state that "data from 82 large pension plans over the 1977–1987 period indicate that *investment policy* explained, on average, 91.5 percent of the variation in quarterly total plan returns." After mathematically analyzing data supplied by consultant SEI Corporation, the authors were convinced that "the overwhelming factor in determining the basic, long-term return achieved per unit of risk was investment policy."[1] Think of the significance of this hypothesis. If true, it means that the membership of the investment committee—its composition—together with the speed and effectiveness of the committee's decision-making style, are more important than any investment specialist or firm hired by that committee.

Making policy cannot be delegated. Yet, it's only human nature to prefer to critique others rather than to evaluate ourselves. We would much rather spend hours listening to money manager presentations, criticizing their styles, and dissecting their performance numbers, while we decline to criticize ourselves and take personal responsibility for results. Moreover, credible statistics affirm that setting policy is more important than any other committee function by a magnitude of three or four to one.

Who Should Create Policy?

Policy is made by people, but how many people are experienced investors, comfortable taking financial risks and having a well-founded perspective on investment history and practices? Even in the investment industry, only a minority of investors truly love investments and have taken extra time to study historical data and related theories. Since personal enthusiasm, willingness to commit time, and faith that additional work produces better results are prerequisites to success in any field, shouldn't those who enjoy investing manage a foundation's funds? Can foundation boards appoint truly enthusiastic individuals to the investment committee instead of appointing those who have invested but would in reality prefer to do something else?

Appointment-by-professional-image is a common standard for selecting investment committee members. This standard assumes that a bank executive, insurance company president, attorney specializing in securities laws, or corporate executive whose leadership has produced value in a public security will perform well on an investment committee. Sometimes the assumption is correct, but more often it is not—either because the professional image does not reflect real investment experience or because an individual having such experience would prefer another diversion during extracurricular hours. Put another way, a board chair risks an inappropriate appointment by calling a respected "old friend" with this plea: "George, would you please serve on the investment committee of our foundation? We need you badly, George. You have experience we need." The board chair might be inveigling George into accepting an uncomfortable position, an unfamiliar task not truly desired. This informal appointment method, the "old boy network" approach, is blind to many dynamic and willing resources such as graduate students and professors, private investors who have achieved solid returns in personal portfolios, retirees, and young professionals who want to become experienced investors and who are personally fascinated by investment theory and practice. Among such groups are *the people who want to learn.*

Appointment-by-enthusiastic-interest is a preferred approach that implies conscientious recruitment, establishment of new procedures such as using publications to solicit resumes of investment experience, and conducting interviews. The process is formal, comparable to using auditions to find the best singers for a chorus, or scanning credentials to identify the best leader for a boy scout unit. And it makes room for the young. In this regard, a safe generalization may be that every known advance in investment theory was originally perceived by the young, the curious, and the enthusiastic. Harry Markowitz, the father of modern portfolio theory, was a 25-year-old graduate student at the University of Chicago when he produced his most important paper. Hence, an investment committee composed of the mature enthusiast and a modicum of youth just might produce policies and procedures of extraordinary utility.

Creating Policy

In creating policy, the first job of an investment committee is to determine investment goals. This task is not simple, because—unlike personal work objectives and family-related goals—an investment objective is elusive. It is a target that moves at some distance from real life. The most frequently expressed investment objective is "to beat the bogey," apt because it illustrates the nature and limitations of contemporary investment practices. Originally, a bogey was an unidentified military target, spotted and quickly identified by an alert fighter pilot, and then labeled a designated target to be defeated or ignored in favor of a target with a higher priority. Thus, "bogey" only described a moving target, a temporary obstacle to successful completion of operations.

In finance, a bogey is a standard of comparison—typically an index of the performance of a class of securities, truly a moving target. It may be stocks or bonds, or a mixture of both. Indices of stocks and bonds may include or exclude specific subcategories such as "large cap" (large capitalization; older, established companies, like General Electric or Exxon), "small cap" (newer companies, usually having a total market valuation of less than $1 billion), long-duration or short-duration (duration is a sophisticated measure of the average time required to recover the investment in a bond), and foreign or domestic. No limit impairs the possibilities.

The investment committee must select its bogey carefully. This choice will reflect risk tolerance and communicate strategy to investment managers. To select the Dow Jones Industrial Average as bogey is to say that the committee will compare its performance to a standard list of 30 large, domestic, well-known common stocks. Therefore, this committee's investment manager would limit investments to big, seasoned companies, traditionally called "blue chips"—the kind in an index the manager has been charged to beat. On the other hand, if the investment committee selects as its bogey 60 percent Russell 1000 Growth Index/30 percent Lehman Brothers Intermediate Government-Corporate Bond Index/10 percent Treasury bills, the portfolio must include various stocks and bonds having characteristics different from the 30 Dow Jones securities.

The bogey metaphor describes how most investment committees think. Members usually do not pick fixed, tangible targets, such as "Our goal is to have $5 million in two years," or "We want to be the number one performing foundation investment account." Instead, the committee tries to achieve returns greater than those of an arbitrarily selected index. Thus, the investment committee will have done well if it earns 12 percent when the index earned 10 percent, or –6 percent if the index earned –8 percent. Again, human nature is at work. Comparing oneself to an index is relatively easy. Since a large number of investment accounts may perform better than the index, and the rest are likely to report results only moderately below the selected standard, success virtually is assured. On the other hand, an investment committee will not be comfortable if it fails to increase value to a specifically targeted figure within a stated time. It also will be uncomfortable if it is the 33rd performer out of 35. (Interestingly, impartial observers cannot evaluate the effectiveness of an investment committee because national services report results confidentially by number instead of name.)

Selection of a bogey is common and significant because it tells the consultants who help write and implement policy and the money managers who pick specific investments the game the committee wants to play. The bogey, however, is a weak standard because it obscures the larger purposes of an educational institution. Focusing on a bogey can misdirect a committee's thought process away from such tangible goals as creating scholarships, building and operating physical facilities, or providing liquidity for the host institution. At worst, an exaggerated devotion to beating a bogey can produce enmity between an investment committee and an institution's administration because the latter has a deceivingly simple objective: to have more resources for new buildings and scholarships and to have more discretionary dollars.

Deliberations about selecting a bogey are based on financial theory. Usually consultants provide reams of data that show past returns and associated risks if a committee's portfolio had contained specified asset classes in specified percentages. The consultants can demonstrate, for example, that "if you had 20 percent long-term bonds and 80 percent common stocks, your return would have been such-and-such and your standard deviation (volatility) would have been this-or-that. Your value would have grown to X amount, and during the worst year you would have experienced X percent decline." The consultant's goal in this exercise is to find a blend of asset classes that will satisfy the committee's total return objectives and risk tolerance—in other words, the committee's comfort zone. With these data, the investment committee makes decisions. It decides how to allocate funds among asset classes and, simultaneously, selects its bogeys. (The investment committee will have more than one bogey if it divides funds into separately managed pools.) The two decisions are inseparable because results of every asset class and many combinations of asset classes are reported nationally by well-known indexes that naturally become the committee's bogeys. Bogeys have practical importance: Investment managers assume the account will be lost if results do not equal or exceed the assigned bogey.

Asset allocation is far from a perfect process and can be uncomfortable for foundation directors who like tangible terms. It is based on mathematics, statistics, and computer models derived from what might be faulty assumptions. The process also is based on historic results that might not recur. Investment committee members might find themselves frustrated and lost in this highly suppositional world. Furthermore, after decisions are made, substantial doubts remain: "Under what circumstances should we change the policy, and when should we re-balance if one asset class performs so well or so poorly that the portfolio no longer matches our original allocation?" Such questions often lead to skepticism about the bogey and a manager's ability to beat it. A bogey is, after all, an average or index.

An astute investment committee might well seek to merge the theoretical and the practical by becoming aware of the host institution's real activities and tangible goals. To ensure that investment policy is compatible with larger purposes, the investment committee should review the vision statements and mission statements of the host's governing board. It should hear the personal goals of the president and the administration. Does the administration hope to build new buildings, increase scholarship support, reduce tuition, create new departments, or increase enrollment? How much risk can and will the institution tolerate? Is it financially strong? Will a decline in foundation market value affect daily operations? Would above average investment returns strengthen the institution by funding new efforts, or should the investment policy seek normal returns and lower volatility to preserve present levels of liquidity and support?

The committee must act as a team member; it must design an investment policy consistent with the risk tolerance of the entire organization. Deliberating about larger issues is not without potential conflict. For example, one Midwestern institution experienced direct conflict between the investment committee and the president. The committee wanted to preserve and grow its asset base for greater future income, but the president wanted to draw funds now to construct a new building. He argued that a physical asset is just as much an investment as a stock or bond. Some ambiguity exists over who should referee such disagreements. Some institutions can afford more risk than others. Additionally, colleges and universities are like any other business: Some years are good; others bad. Occasionally, institutions experience "extended difficulties," such as accidental destruction of buildings, academic or athletic scandals, reduced state support, or just poor judgment. A financially strong institution can weather such storms. If cash flow is good and the endowment large, the foundation's investment committee may state that "our net asset value can *temporarily* decline 20 percent without injuring the institution's activities and plans." On the other hand, an asset value decline could put a weak institution—especially a private institution—out of business. Risk tolerance is real and practical, more than a feeling or personal bias. Defining risk tolerance is a business judgment. An investment committee can make a rational assessment of risk tolerance by analyzing the big picture. If the big picture is good, then the committee can assume more risk and seek higher returns. Taking risks is fine—if the risks are not fatal.

A second approach to uniting the real business life of an institution and theoretical investment principles is to involve foundation investment committee members in the formulation and pursuit of institutional goals. For example, suppose that an investment committee member is appointed to a governing board subcommittee considering the construction of a new building. Presumably, the investment committee member will become as committed to the project as anyone else. This commitment can be valuable to the foundation's investment committee. The investment committee might establish new, more specific, and more aggressive investment goals that, if achieved, could accelerate the construction start date. If the investment committee decides on an asset allocation that might earn 2 percent more per year than normal and it dedicates extra earnings to the building project, then committee members will have made a tangible difference. Of course, committee members also must be willing to live with higher risk, meaning that extra funds might not be there on some crucial date.

Committee Operations

Foundation investment committees have two levels of jobs and responsibilities; the first is general, the second is personal. In general, the governance culture of an investment committee should include a stated or implied mandate: Each member must continuously accumulate knowledge about investment theory, investment practices, and new techniques and instruments. Members may fulfill this mandate by reading books or journals, enrolling in courses, attending meetings of professional societies, and visiting the premises of full-time investors. Enthusiastic individuals who understand the importance of policy and the larger purposes of the host institution do not work in a vacuum. Creativity and effectiveness are a function of culture or, more to the point, of the strictures and opportunities in a committee's tradition of governance. All members must share a belief that their individual function is important and respected, that their ideas and labor likely will produce positive results for the organization and intellectual growth for themselves. Volunteers need to express ideas and see their ideas implemented. An investment committee dominated by one or two "old guard" members who refuse to change and consider new ideas soon will alienate other members, quietly dampening their desire to participate. But encouragement and respect for new ideas is not enough. People also want to labor, to manage a portion of the total task, to produce results individually. They want to learn by doing, which leads to this imperative: In addition to functions related to the committee as a whole, every investment committee member should have a specific and measurable job, clearly defined in the committee's management manual. While it is neither possible nor practical to force committee members to engage in self-improvement, foundation board and investment committee chairs can cultivate a milieu that promotes continuing education by endorsing specific educational activities, recommending particular books and journals, training new members in the continuing education habit, and—occasionally, in open committee—citing the importance of keeping up to date.

Assigning a personal responsibility to each member, a defined task that requires preparation and action, will contribute significantly to the culture of self-improvement and to increased committee effectiveness. Committee effectiveness is not a function of how many jobs are assigned or of the specific description of those jobs. Instead, effectiveness improves just because each committee member has a defined job. Therefore, small committees will assign fewer jobs than large committees, and chairs of large committees may have to stretch their imaginations to create enough jobs to go around. The committee's management manual should describe all tasks. Better yet, each member should have a title, such as "director of planning" or "continuing education coordinator." Below are a few of the many possible assignments that make committee service more interesting, challenging, and successful.

Director of Policy Creation

This committee member, with subcommittee members, recommends and entertains suggestions from others for written policy. The assignment is to propose a living policy document that is appropriate, internally consistent, interesting to read, and up-to-date. To accomplish this task, the director of policy creation and his or her subcommittee members may choose to work with a professional consultant, but they should also seek information independently. They should read policies of other foundations and even of unrelated institutions such as retirement plans and mutual funds. They should strive to create within themselves a sense of the supreme importance of policy and how results vary according to the effectiveness of written policy language. When a policy is completed, approved, and distributed to money managers, this subcommittee should learn how the policy is being interpreted by the money managers who must conform to it. Expressing policy is one thing, interpreting and executing it is another. The policy creation director must affirm that all money managers interpret the policy as intended and should propose policy amendments if interpretations do not reflect accurately the committee's intent. In addition, the policy should be reviewed by objective outside parties, one of whom might be an English professor who can clean up the many awkward constructions that arise out of "committee speak", which often is unavoidable during the process of reconciling divergent points of views.

One divergence the committee chair might anticipate originates with staff. Foundation staffs have intense interest in investment policy. Since portfolio theory is well defined and many investment programs can be implemented though consultants, someone will argue that investment committees are superfluous—staffs can do it all. Be that as it may, the contemporary investment administrative unit is the volunteer investment committee. Members of the committee should be sensitive to staff needs and include staff members in discussions when possible.

Director of Planning

Things will change: new donations, withdrawals to fund projects, new appointments to the committee, and retirements. The financial community will create new investment securities, academics will publish new hypotheses of securities markets, and aggressive entrepreneurs will propose whole new ways of managing money. In the 1970s, standardized options appeared. In the 1980s, other innovations appeared—low-rated bonds, asset-backed securities, and refinement of asset-backed securities into collateralized obligations that divide a single security into sections having specific cash flow characteristics. In the 1990s, Wall Street thinkers produced "multiple, callable, step-up" instruments and a new asset class called managed futures. The planning subcommittee should be aware of such developments and should report on them as part of each full committee's agenda.

Director of Policy Implementation

Usually with the help of a consultant, this committee member designs a method of locating full-time professional investors whose style, temperament, and organization are suitable to implement the written policy. This member also maintains a permanent, monitored list of acceptable money managers (who implement policy by purchasing specific investment securities) and consultants (who help write policy, select and monitor managers, and maintain vast amounts of data about markets and managers) in preparation for the day when new donations, significant changes in the relative value of different asset classes, or simple dissatisfaction dictate the hiring of new consultants and managers. The person who holds this position will make the next manager search easier by having a list of available and appropriate managers the committee should interview at the time for change. A more subtle obligation is to keep things in perspective, propose a philosophy about the rationale and timing for hiring or dismissing managers, and remind the full committee and the foundation board that results are more a function of policy than of managers.

Director of Continuing Education

This individual should propose and implement formal information exchanges by managing a committee library and insisting that each meeting include a report on something new. Investment committees should subscribe to important journals and purchase new books. For example, one director should read regularly the *Financial Analysts Journal*, while another might be assigned to read a specific new book. Each should then report at a committee meeting, describing content and important new insights. Following the report, the committee should route the publication among all interested members, thereby enhancing the culture of self-improvement. Another task is to schedule 15-minute educational presentations at each committee meeting. Professors, students, large-firm financial consultants, regulators, and attorneys usually are delighted to appear before an investment committee—without obligation—to describe something new about their professional activities. Some of these presentations will be mediocre, others effective, but the result will be greater committee awareness of the investment world. Sharing is important. Investment committees commonly send members and staff to educational symposia on institutional money management and asset allocation. Rather, foundation resources would be better spent on experiences that can be shared by all directors meeting together because it is very difficult to apply theories learned by only one member.

Director of Investment Committee Management

This person is responsible for preparing and maintaining the committee's managerial manual, which should include a special section titled "How to Manage a Crisis." Within every decade a crisis occurs—a major market adjustment, an international emergency, or an unanticipated change in the administration of an institution. Usually, such events require a prompt response, despite difficulties in arranging meetings or consulting with all members of the investment committee. Therefore, this section also should describe how the committee may make decisions even if the chair is unavailable, and—most important—how the committee quickly can gain a long-term perspective on events that at the moment seem dire and out of control.

A final important task is periodic evaluation of the committee itself. Are its decisions timely? Is everyone's view considered? Are results up to the expectations of the foundation's host institution and other observers? A biannual relaxed retreat, usually held at a remote location, is ideal for this kind of introspection and self-evaluation.

Director of Investment Operations

This person and supporting subcommittee members evaluate custodial and brokerage agreements to ensure that fees and commissions are appropriate and competitive and that a maximum net interest is paid on uninvested cash.

Director of Institutional Relations

This person is designated to attend other meetings in the institution, such as meetings of the institution's finance committee, committees planning capital campaigns and new building construction, and committees responsible for introducing major new programs. This is a two-part task: first, to communicate to others actions of the investment committee and to announce results; second, to listen and learn about policy in other areas of institutional administration and communicate those policies to the foundation investment committee. Basically, this person keeps lines of communications open.

Conduct of Foundation Investment Committee Meetings

Whether managing $100,000 or $100 million, a foundation's investment committee must integrate the appropriate degree of formality and informality, business procedures and casual decision making, formal debate and relaxed dialogue, and learning and doing. The schedule of meetings, agendas, and rules of order must produce results totally acceptable to the majority and at least tolerable to any dissident minority, for nothing is more costly than delay, division, and controversy—especially if controversy leads to resignations. To achieve maximum efficiency, young and experienced committee members must respect majority rule and accept that ways of the past may not produce stellar results in the future. (No investment principle is more profound than this lament: "As soon as I understand them, *they* change the rules"—another use of the mythical "they," such as in "*they* are buying" or "*they* sold the stock in droves.")

Applying traditional American business-like management principles to committee meetings can ensure success in handling change. Ten essential principles and practices will suffice:

1. *Every meeting accomplishes something.* The committee should cancel meetings in which it has no important business to conduct. While members may wonder why a meeting is canceled, they will detest any meeting that neither decides nor elucidates, or is a waste of time.
2. *Agendas are distributed well in advance.* Language in the agenda must state clearly the business to be considered. "Report of the Planning Committee," is not clear, but "Planning Committee Recommendation to Add ABC and XYZ to the List of Acceptable Money Managers" says it all. Members cannot prepare for an ill-defined general discussion, but they can prepare for specific and measurable business.
3. *Agendas are distributed to all interested parties.* This includes the governing board chair, the president and the chief financial officer of the host institution, representatives of the consultant and of all money managers, and any party invited to appear at the meeting. A credible, important outsider cannot provide information or attempt to persuade without knowing when a meeting will take place and the subjects to be considered. Involvement leads to agreement; secrecy, omission, and separation lead to protest.
4. *The first order of business is to affirm the agenda.* Members must be given an opportunity to set priorities for discussion, thereby ensuring that important business (in the eyes of the majority) is considered first. Note that the presence of a guest or professional advisor can radically distort an agenda. Impor-

tant business may be delayed or considered all too briefly because an invited guest takes too much time. Chairs must define and judiciously enforce time limits.

5. *Announcements, minutes, and other housekeeping matters are disposed of efficiently at the front end of the meeting.*
6. *General policy is emphasized, rather than specific cases.* Policy, the most powerful force on investment results, is more important than what or who. Therefore, agendas should permit more policy review and less review of specific money managers and investment choices. Furthermore, the committee should explain its policies to a manager instead of listening to a manager explain decisions or provide economic projections.
7. *If time is tight, strict parliamentary procedures are employed from start to finish.* If time is more relaxed, informal discussion may be encouraged. In either case, the committee should make final decisions formally, with a motion, a second, amendments, pro and con debate, and a clearly recorded vote.
8. *Each meeting allows time for learning.*
9. *Minutes are distributed within two days of the meeting.* Members may not recognize significant errors if they review the minutes several months later. The committee should distribute minutes to all interested parties, insiders and outsiders, thereby facilitating a healthy check and balance. Whenever possible, a professional secretary should take minutes. However, many investment committees do not have access to this type of support. Hence, the chair must appoint a recording secretary for the meeting, possibly a member of the foundation staff. The appointment should be made in advance so the designated person is prepared.
10. *Committee chairs act like committee chairs.* Committee chairs often are not schooled in the art of meeting management; this is unfortunate, since the only job of a chair is to facilitate decisions. The chair does not dominate policy, does not intimidate members toward a single view, and is not personally responsible for results. Rather, the committee as a whole is responsible for results. The chair runs the meetings and ensures that they start and finish on time, that all priority business is considered, that every view is heard, and that the majority rules. The committee should dismiss as chair any individual who does not respect this role—regardless of any personal, economic, or political ramifications.

"When all was said and done, much was said, and little done" is a popular comment about committee meetings. Most people complain about their experiences on committees. Governance expert John Carver once said, "[Committee] service is the Bermuda Triangle of personal effectiveness."[2] But committee service *can* be fun, and people *can* enjoy it. If the governance culture of an investment committee respects the time of its members, gives each a task that allows and promotes personal growth, and arrives at decisions that are timely and sensible, members will find great satisfaction in serving.

Saving Money

The costs of managing money include consultant and manager fees, commissions, expenses of committee operations, and the value of volunteer time. Most investment committees control fees and commissions, but few consider their own costs or opportunities to do things for themselves in preference to hiring professionals. If properly computed, the value of volunteer time is astronomical but it is given freely without complaint or remorse provided that committee meetings are not a waste of time. On the other hand, every committee incurs tangible costs, such as meeting space, clerical support, and occasionally food, lodging, and airline fares. In larger institutions, the cost of committee operations may be equivalent to several annual college scholarships, thus making it even more important that every meeting is useful and produces value. (Another huge cost is expenses incurred by consultants and money managers for sending professional advisors to investment committee meetings. This cost hides within fee structures.)

Committees may reduce the cost of commissions by hiring money managers with low transaction turnover rates. Turnover is controversial. Some argue that managers add value by selling overvalued securities to purchase undervalued securities. Others preach that it is impossible for any human to buy low and sell high consistently; they say that there are too many variables, and—even when timing is correct—transaction costs wipe out some or all of the value added. (See *Investment Policy*, by Charles Ellis, Dow Jones-Irwin, 1985, for straight talk about this debate.) Each committee must state its view in the written policy and hire managers that comply with this view. If the investment committee desires to reduce commissions dramatically, it may invest in an index fund, which is a mutual fund or pooled account that attempts to replicate an index by acquiring all securities in the index. Since changes in an index are rare, commission costs are usually low.

Consultants charge for three services: policy presentation, manager searches, and portfolio monitoring. At some point in the process—particularly at the beginning—consultants are invaluable. Their skills help develop policy; their resources to identify potential money managers are unlimited. Nevertheless, committee members can do more of the work themselves. Members should be able to refine policy by using their continuing education and the resources available on their respective campuses. An effective policy implementation subcommittee could maintain a list of potential money managers and invite several for presentations as the need arises. Computers that are accessible could provide enough performance data to monitor results appropriately and to compare results against standard indexes. The savings from "doing it yourself" might be enough to buy hundreds of new books for the host institution's library.

Developing Money Sense

For investment committees, the highest state of readiness, coordination, and effectiveness occurs when members individually and collectively have money sense—an awareness, a comprehensive familiarity with "where things are." Consider, for example, an automobile driver who has an awareness of and intuitively comprehends traffic patterns, potential conflicts, and the role of courtesy in safety. Successful golfers, sailors, and aviators have a similar sense of time, motion, and relative position, permitting safe arrival by the most direct routes.

Investors with money sense also have or develop an intuitive understanding of the present value of markets as well as their personal relative position within the markets. The incredible importance of time and compounding powerfully affect their decisions. They are quick to decide, and they make long-term commitments from which they are not easily dissuaded by the day's news or by crises. Perhaps most important, they do not assume personal responsibility for profit and loss because they can no more affect the future course of prices than they can affect the weather. Markets will do what markets will do; no amount of human labor can change them. The only thing investors can do is to be there when it happens.

Strong investment committees will have money sense, a collective state of mind that produces solid, long-term commitments, makes decisions calmly, and expresses objectives clearly. Achieving money sense requires effort by working hard, pursuing continuing education, writing and honoring policies, and talking and working with experts. It involves making decisions within an environment that respects every point of view and uses parliamentary procedure. Perhaps above all, it requires good rapport among investment committee members. ■

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[1] Brinson, Gary P., Singer, Brian D., and Beebower, Gilbert L., "Determinants of Portfolio Performance II: An Update," *The Financial Analysts Journal*, May-June 1991, pp. 40 ff.

[2] Carver, John, "A Bimonthly Workshop with John Carver," January–February 1995, p. 2.

CHAPTER 7

Managing Assets, Part Two: Investing and Spending

David W. Bahlmann

Virtually all college and university foundations have mission statements outlining their responsibility to receive contributions and dispense funds to assist students, support faculty and educational programs, and enhance the general welfare of the host institution. Among other responsibilities, the board of directors is charged with investing and managing the foundation's assets. The directors are admonished to carry out their duties on behalf of the foundation with the care, skill, and diligence of a "prudent person." Determining the extent and nature of investment management responsibilities presents a significant task for directors. This chapter outlines their four primary specific responsibilities to (1) develop policies, (2) secure outside professional counsel, (3) set goals and objectives, and (4) retain and evaluate external fund managers. Preceding that discussion, this chapter reviews performance standards for foundation directors and a rationale for those standards.

Stewardship and the Uniform Prudent Investor Act

In their article "Stewardship—Serving on the Board of Directors of an Institutionally Related Foundation," Thomas Arden

Roha and Susan L. Q. Flaherty note that common law courts have charged those responsible for the management of charitable organizations with three basic duties, as follows:

- *Duty of care:* Directors of nonprofit corporations are entrusted with stewardship of assets for the benefit of the public served by the corporation...act(ing) with that level of care that a *reasonably prudent person* would use in similar circumstances.
- *Duty of loyalty:* Directors must avoid conflicts of interest and are absolutely prohibited from using their position of trust to further their own private interests.
- *Duty of obedience:* Directors are required to adhere to applicable statutes and the terms of the corporation's articles of incorporation and bylaws.[1]

Most states have adopted statutes granting some form of immunity from civil liability in certain circumstances for volunteers who act negligently in carrying out their duties, unless they acted knowingly or with gross negligence. Also, many state laws allow nonprofit corporations to include language in their articles of incorporation or bylaws providing for indemnification of officers and directors who are charged with misconduct. Additionally, directors' and officers' liability insurance or association professional liability insurance can be purchased to protect officers and directors. In any event, directors and the professionals they hire and direct are being required to "do well" in addition to their historical motivation to "do good." This concept of "doing well"—having derived its origin, current application, and emphasis from the world of business—is particularly important when applied to the areas of investments and asset management.

Over the last few decades, investment practices related to fiduciaries—practices that date to the 1800s—have changed significantly. As outlined in the Prefatory Note to the Uniform Prudent Investor Act (UPIA) drafted in 1994 by the National Conference of Commissioners on Uniform State Laws, UPIA "undertakes to update trust investment law in recognition of the alterations that have occurred in investment practice. These changes have occurred under the influence of a large and broadly accepted body of empirical and theoretical knowledge about the behavior of capital markets, often described as 'modern portfolio theory.'"[2] In conformance with that theory,

> "the act draws upon the revised standards for prudent trust investment promulgated by the American Law Institute in its Restatement (Third) of Trusts: Prudent Investor Rule (1992) and makes five fundamental alterations in the former criteria for prudent investing.
>
> 1. The standard of prudence is applied to any investment as part of the total portfolio, rather than to individual investments. In the trust setting, the term 'portfolio' embraces all the trust's assets.
> 2. The trade-off in all investing between risk and return is identified as the fiduciary's central consideration.
> 3. All categoric restrictions on types of investments have been abrogated; the trustee can invest in anything that plays an appropriate role in achieving the risk/return objectives of the trust and that meets the other requirements of prudent investing.
> 4. The long-familiar requirement that fiduciaries diversify their investments has been integrated into the definition of prudent investing.
> 5. The much-criticized former rule of trust law forbidding the trustee to delegate investment and management functions has been reversed. Delegation is now permitted, subject to safeguards."

The Prefatory Note further points out that "although the UPIA-1994 by its terms applies to trusts, not charitable corporations, the standards of the Act can be expected to inform the investment responsibilities of directors and officers of charitable corporations. As the 1992 Restatement observes, 'the duties of the members of the governing board of a charitable corporation are generally similar to the duties of the trustee of a charitable trust.' Absent contrary statute or other provision, the prudent investor rule applies to investment of funds held for charitable corporations."

Since institutionally related foundations are charitable corporations and subject to UPIA, all boards of these foundations should institute policies and procedures in keeping with the act's provisions or update existing policies to ensure compliance with the new criteria.

The 1972 Uniform Management of Institutional Funds Act authorizes the boards of nonprofit institutions, which are trustee-like fiduciaries, to delegate investment matters either to a committee of the board or to outside investment advisors, investment counsel, managers, banks, or trust companies. Passed in 38 states as of 1993, this act permits many institutionally related foundations to begin securing assistance in carrying out fiduciary responsibilities. Regardless of legislation, however, the 1995 AGB/CASE survey (Appendix A) reported that, while just more than 88 percent of the respondents had functioning finance or investment management committees as part of their foundation boards, only

69.5 percent indicated that their foundation board had adopted formal policies on asset management and investment. This suggests that many institutions—despite legal and historic responsibility and precedent—have yet to accomplish this most important task. While this may be attributed to the fact that the majority of these foundations have $10 million in assets or less (and so perhaps feel less of a sense of urgency in these matters), all trustees of assets are charged with the same degree of responsibility and care.

How, then, does a foundation's board of directors, charged with such a serious set of responsibilities, go about complying with its duty? Whether beginning anew or conducting a full-scale review and update of existing policies, the board should begin at the beginning—the present and future needs of the foundation and the institution it serves.

Developing Spending and Investment Policies

Dennis H. Verity and Scott G. Thayer stress in their article "Foundation Investments: Policy, Asset Allocation, and Performance"[3] that the

> key to successful long-term foundation management is the establishment and application of an investment policy that complements the foundation's spending policy. A spending policy establishes what is reasonable and prudent payout to purpose and related expenses for a foundation's endowed accounts. The primary objective is to determine how much to spend currently and how much to reinvest to preserve future spending power. The coordination of a spending and an investment policy is necessary to maintain a financial equilibrium that protects the future purchasing power of the fund. A well-defined spending policy leads to a properly defined investment policy, which improves long-term investment results.
>
> The 'spending rule' defines the annual percentages that will be withdrawn from the fund to be spent on program payouts, and administrative and operational costs. Annual spending rules at 5 percent (or more) of fund market values are considered high by contemporary standards, and may result in negative growth of fund values (loss of future spending power). Appropriately defined spending rules become essential in an inflationary environment to protect and sustain the "real" (inflation-adjusted) value of principal assets. A fund cannot maintain the real value of its portfolio or its future grants, if payout exceeds real return (actual net return minus inflation).

Verity and Thayer further point out that

> (m)ost contemporary spending rules pay out each year a fairly constant percentage of the total market value of the fund without regard to whether the dollars spent are dividends, interest or capital gains, therefore, investment policy should be formulated to achieve 'total returns' (capital appreciation and income). A spending policy that balances current and future spending can be redefined by a basic formula that *links* the fund's annual growth (total return) with costs (spending and inflation).

Once the needs (spending policy) of the foundation are determined, consideration is given to the investment policy required to achieve the desired results on a yearly basis. A board committee should determine needs before it engages outside consulting help. Involving the board (or its assigned committee) in the task of analyzing the overall spending and investing needs of the foundation focuses directors on seeking *appropriate* professional assistance. (For a more in-depth discussion of this subject, see "Spending Policies and Investment Planning for Foundations," published by the Council on Foundations, updated 1995).

Seeking Outside Professional Assistance

Seeking consulting services in today's complex business world is a multifaceted process. Invariably, someone on the foundation's investment or finance committee will know and suggest a consultant, thereby severely compromising the selection process before it really begins. Setting ground rules for discussion and search is extremely important before any names of individuals or firms are suggested. Crucial to a successful search is knowing what the committee is searching for and what it hopes to find. Virtually all services the committee members can envision are obtainable or at least promised from most of the individual consultants or firms the committee elects to interview. However, most foundations do not need all possible services, even if they are included in the basic price.

Guidance for approaching this task was derived from a national study conducted by the Academy for Educational Development in cooperation with the American Council on Educational Development, the American Council on Education, and the Association of Governing Boards. The study reviewed the endowment practices of 23 institutions and, based on its findings, released recommendations on the best way to manage funds. Well-managed funds

- had disciplined spending policies, were not subject to "market reaction" asset shifts,

- used specialized investment managers to add value and reduce volatility,
- selected money managers based on their specialized skills and investment performance, rather than geographic location, and
- used independent investment consultants to provide expertise and objectivity.

Investment management consulting firms and individuals generally offer the following core services:

- review, help develop, or refine investment policy,
- suggest objectives and policy guidelines (including spending policies),
- help plan for asset allocation,
- evaluate investment performance (historic and ongoing),
- help select and evaluate a master trustee/custodial bank, and
- conduct special studies (social investing, securities lending) and distribute results.

These services cover most areas of fiduciary responsibility. In addition, outside counsel can provide perspective on the important distinction between "institutional" and "personal" investing and participate in continuing education programs for foundation directors (see Chapter 6).

Some consulting firms offer these less crucial, perhaps optional, services:

- manager review and/or custodial costs,
- transaction cost analysis,
- commission recapture,
- preretirement planning,
- participant education for defined contributions,
- materials development for donor reporting and fund-raising, and
- investment strategy topic reports on current issues of interest to institutional investment programs.

These supplementary services are appropriate for some foundations, but each foundation must balance them with its *real* needs. Some foundations may not require these services initially, if ever. The appropriate "rule of thumb" in purchasing outside consulting services is to seek only the services actually required.

Developing a Request for Proposal and Hiring a Consultant

The best and most widely recommended method for seeking professional counsel is to develop a written request for proposals (RFP) and distribute it to all individuals and firms being considered by the search committee. This process forces the committee to focus its thinking on a set number of questions and ask them concisely and clearly. Thus, if all firms are asked the same set of questions, the answers will allow foundation officials to compare proposals and conduct a fair and even-handed evaluation. This process—combined with a use of consistent terminology, definitions, and understandings—will result in the foundation receiving important data before it makes a decision. The process also enables the foundation officials to conduct research on the background and qualifications of the applicants.

There are numerous formats for requests for proposals; models may be available from the foundation's host institution or similar nonprofit organizations. Regardless of the format the committee elects to follow, it should use it uniformly throughout the selection process. In general, an RFP should seek information on the following topics:

- **Firm ownership and information.** This includes information on the firm's ownership and staff, including the name of the person who will actually service the account and an explanation of why this individual is appropriate.
- **Database.** The RFP should ask if the firm maintains its own database or uses data purchased from other sources.
- **Statement of consulting philosophy.** The RFP should ask the firm to describe the qualities and characteristics that make it unique.
- **Methods for reviewing investment objectives and determining asset allocation recommendations.** The RFP should determine the process the firm will use to make recommendations to the board on the most appropriate investment objectives, guidelines, and asset mix in light of current and long-term desired return assumptions and risk constraints. Each firm must describe in detail simulations that would be used in the evaluation and include a sample work plan for each step of the process.
- **Investment manager performance measurement.** The RFP should ask how investment performance will be measured, especially regarding how the total return will be determined.

- **Timeliness.** The firms should be asked to predict the expected time interval between receiving data and producing board-required reports, including investment and spending objectives and guidelines, asset allocation, and other related documents.
- **Consulting fees.** The RFP should ask the approximate fees for each itemized function or service to be provided by the firm.
- **Current client list.** The list provided should include other institutions of comparable size and purpose.
- **Commencement of services.** The RFP should ask when the account representative will begin work on site.

Setting Investment Goals and Objectives

Without question, the board's most important responsibility regarding asset management is setting investment goals and objectives, thereby determining the asset allocation for the investment of the foundation's assets. Research has shown that more than 90 percent of the total return of a foundation's assets is captured in the asset class decision. An appropriate strategic asset allocation allows the foundation to honor current and future spending policies, maintain stability, and achieve long-term goals and objectives. Since this function is so significant in the foundation's overall performance, the investment committee must receive the best support and guidance possible. Communications among all parties must be complete and occur throughout the process. Foundation officials must pay careful attention to detail and ensure that all perspectives are heard.

Overall investment goals and objectives vary as much as the corporations they serve, but those that are successful share basic components. The following policies and objectives should be addressed in a formal document. Its basic components follow:

- **General history and purpose of the fund.** This covers the mission of the host institution and a clear statement of the philosophy that guides the board, its investment committee, the investment consultant, and any appointed investment manager(s) toward the performance desired. The objectives must be sufficiently specific to be meaningful, but flexible enough to be practical.
- **Investment objectives.** These are the overall objectives of the investment policies, including the expected return stated in a total return format and risk tolerance of the trustees.
- **Payout/liquidity requirements.** These define the rate and method of calculation and the timing of distributions from the funds required by the foundation to operate its programs.

- **Asset allocation policy.** This will identify approved asset classes, policy levels for each class, rebalancing provisions, use of new monies, and the review process to be maintained.
- **Diversification.** This statement identifies different asset classes required, the requirements of and limitations on domestic and foreign investment vehicles, capitalization requirements, and investment styles to be followed.
- **Management procedures.** *This* information explains if the account is to be managed actively or passively, if the funds should be kept separate or may be pooled (and under what circumstances either should occur), and the criteria to be followed in the selection and termination of fund managers.
- **Performance measurement.** This sets intervals and timelines for fund-manager performance measurements and establishes the benchmarks to be used in the process.
- **Consultant selection.** This information establishes guidelines for determining the types of consultants to be used (independent or in-house), including determinants for specific tasks or entire discipline authority.
- **Investment limitations.** This outlines regulatory procedures to be followed by fund managers, social or ethical constraints imposed, diversification requirements to be followed (including excluded asset classes or vehicles), and a discussion of prudence issues to be followed by all involved in the formation of policy and implementation of the investment goals and objectives statement.
- **Communications requirements.** This information establishes the communications expectations for everyone involved in the process—managers, consultants, and custodians—and identifies how they should provide written suggestions regarding appropriate adjustments to the investment policies and objectives, and performance review process.
- **Conflict of interest.** This statement enumerates a clear expectation that all parties are bound to compliance with state and federal regulations, particularly as they apply to self-dealing.
- **Effective date(s) of investment policy.** This statement sets dates by which policies become effective and establishes a process and specific procedures for their review and updating.
- **Glossary.** This information describes agreed-upon definitions for terms used throughout the document. The inclusion of a glossary in an appendix to the written goals and objectives document can forestall many problems.

- **Conclusion.** This statement summarizes the spirit and fundamental intent of investment and spending policy. While not always used, this statement reinforces the purposes of a policy document. The specific language of a summarizing statement and the entire document should be reviewed by legal counsel, but generally it should include the following concepts: (1) The document should be used as a guideline to assist the foundation's board of directors, investment committee, investment consultant, and investment managers. (2) The document should *not* be considered a legal document or contractual obligation. (3) The document should be viewed as flexible to assist all parties in the effective management of the foundation's assets.

Next come three essential activities: creating the investment goals and objectives policy statement, hiring an asset manager (which may be an individual, a firm, or a combination of both), and preparing a managers' profile. To help manage these complex activities, the members of the investment committee may wish to divide them into three work plans. The descriptions for doing so follow.

Work Plan One: Developing the Investment Goals and Objectives Statement

The investment goals and objectives policy statement is an intricate and comprehensive document; the process for developing the statement is equally complicated. To ensure a successful policy statement, a project team should begin by identifying a comprehensive work plan for the statement's development. The team should consist of the investment committee chair (or board designee), the chief staff officer of the foundation (or that person's designee), and the investment consultant. Collectively, they are responsible for ensuring that all other appropriate parties are included in the statement's development and all steps are followed in the process. Optimum success requires that certain steps be followed:

1. The team meets (optimally, all team members should be present) to gather and share information and help develop the written work plan that will guide the development of the policy statement.
2. The investment consultant leads in the development of an initial asset allocation (a component of the statement described earlier in this chapter) simulation and supervises the input of the data required.

3. The investment committee (or the board, as desired) meets to review the initial asset allocation simulations and to discuss options to enhance return and reduce risk.
4. The team fine tunes the asset allocation designation and prepares a draft of the document to be used in the presentation to the board or committee.
5. The foundation directors convene to review the consensus documentation and to approve the asset allocation plan.

Work Plan Two: Selecting an Asset Manager

Once the investment goals and objectives statement (including the asset allocation plan) is developed by the project team and adopted by the board as described above, the investment committee must hire the proper manager to invest the funds. (The reader should keep in mind that in all instances in this section of the chapter, "manager" refers to either an individual, a firm, or a combination of both.) Once again, because nearly every foundation director and investment committee member will know someone in the business, all involved must exercise extreme caution and resist the temptation to make specific recommendations of personal brokers or brokers of friends who have "done very well." Additionally, some directors or committee members will wish to recommend a local financial institution with the hope that gifts will ensue. Rather than pursuing either of these strategies, the foundation would be better served to rely on the advice of the investment consultant and use a project team approach to identify a list of potential fund managers. To secure the best fund management possible, internal sensitivities and politics should be balanced against the manager's fiduciary responsibilities.

Among the most important decisions for the foundation will be selecting and hiring the proper manager to carry out the investment plan. This decision is second only to developing the right asset allocation mix. The plan for selecting an asset manager must set forth carefully the criteria for hiring one or more fund managers. The plan's components are extensive, but necessary to a successful decision. While the following 14 steps do not have to be followed in sequence or completely, each should be explored. Even if all the steps are followed, no guarantees will result. The work plan team does the following:

1. Reviews and discusses with the committee and foundation existing investment guidelines and objectives developed either from the completed asset allocation study project or from

agreed-upon guidelines and objectives from another source if the foundation doesn't have its own.

2. Determines the characteristics of an effective manager (as defined by the committee) and pays particular attention to investment philosophies, the classes of assets the foundation needs managed, performance, organizational structure, and geographic location.
3. Prepares a preliminary list of managers for the investment committee to review and discuss.
4. Starts the questionnaire process (similar to the request for proposals process for hiring consultants discussed earlier in this chapter). The team also should involve the investment consultant in developing appropriate questions to be asked candidates to ensure that the information solicited is consistent.
5. Processes all questionnaire responses, making sure that all questionnaires are evaluated on the same agreed-upon criteria.
6. Conducts preliminary screening of managers with the board and/or investment committee (the screening should be based upon questionnaire data).
7. Conducts in-person interviews with semifinalists or gathers updated information by telephone on managers who were interviewed in person within the past six months. The work plan team must be sure that data collected and updated are based on the same question format discussed above.
8. Prepares a manager profile on each semifinalist. (See next section.) The profile should include commentary on each manager's style and investment process.
9. Meets with the committee to arrive at a list of finalists.
10. Prepares for finalist presentations by providing all review and selection committee members with a background packet (including profiles) on each candidate and sample questions. The project team members must be sure to ask all candidates the same questions to ensure fair and uniform evaluations.
11. Conducts finalists' presentations with the board and/or committee, reviews all finalists' information, and evaluates and ranks all finalists using the developed criteria.
12. Makes the final selection and notifies qualifying and nonqualifying managers.
13. Helps transfer assets and funding to newly hired managers.
14. Establishes ongoing monitoring criteria that are consistent with the reasons the manager was selected.

Work Plan Three: Preparing a Manager Profile

The investment consultant should prepare manager profiles for each semifinalist, following a basic outline, to give sufficient information to the foundation board and professional staff so they can determine each candidate's potential for being included on the foundation's investment team. While each consultant may have a particular style for providing this information, the profile should include the following data:

1. name of the management firm;
2. type of asset manager (equity or fixed);
3. summary information about the firm;
4. summary information on the manager's investment style (including a reference to the manager's universe or area of expertise or specialty);
5. information about how the manager constructs portfolios;
6. quality controls, including:
   - skill sets (sources of performance) including market timing, sector diversification, security selection, and security concentration, and
   - consistency of results (for example, does the manager have an internal system for monitoring portfolios?); and
7. consultant's appraisal, including expected performance characteristics, positive factors, areas of special consideration, and style reference for comparison with other similar style managers.

Compiling these data and following the recommended process ensure that the foundation board will select managers who have the credentials, skills, and experience necessary to carry out the investment plan effectively.

Evaluating Fund Manager Performance

Once the manager is hired and has assumed the management of the portfolio as prescribed, performance evaluation falls to the foundation or its representatives. In doing so, the board—with the help of its investment consultant and professional staff—needs to develop relevant performance measures by which it can evaluate its manager accurately. This evaluation must be as complete as possible to provide relevant and impartial data for measuring current performance and future potential. The performance measures must address two fundamental questions:

1. ***How did the manager perform with regard to the stated key objectives of the investment plan?*** This accurate calcu-

lation of the manager's absolute performance is measured relative to recognized and customary passive indices, and active manager universes and manager peers. Conclusions may be reached regarding future effectiveness of the manager with regard to qualitative evaluation and quantitative evaluation—including security characteristics, risk exposure, and attribution of success or failure to actual acts of the manager.

2. ***How predictable was the manager's performance in terms of history, style, skill sets, and types of securities?*** Additionally, each manager must be evaluated within the framework of the manager's own universe, particularly for areas of change such as ownership of the manager's firm, changes in key people managing the firm, changes in investment style used by the manager or the firm, and changes in assets or accounts under management. Significant changes in the manager's universe could be warnings of future change in capacity to meet the foundation's investment objectives.

Evaluating Fund Performance

Review of each fund manager's performance is conducted periodically in an ongoing assessment of the performance of the fund itself. Five basic fund performance areas should be reviewed, although others may be added at the discretion of the board:

1. ***Fund objectives.*** Are the fund's goals and objectives consistent with the current institutional needs as outlined in the plan? Are manager guidelines consistent with objectives of the plan? Are manager guidelines reasonable in light of current market and economic conditions?
2. ***Total fund performance relative to its objectives.*** What is the current asset mix and value of the portfolio? Has a significant shift in asset mix occurred during the quarter? Did it add value? What performance results were achieved by each asset class and the total fund? Are managers performing in line with investment guidelines? How are managers performing in relation to the total market?
3. ***Manager mix.*** Were assets allocated properly to the various manager styles? Was the mix of manager styles correct? Did manager performance achieve fund objectives? Was manager performance in line with other managers having the same style?
4. ***Manager skill tests.*** Did each manager add value through the use of investment skills? Would a passive index fund provide similar results?

5. ***Total fund characteristics.*** What changes were made, if any, in the inventory of securities used by the managers? How is the portfolio likely to perform in the future?

Addressing Special Issues

Although each foundation will encounter many special issues, two questions seem to dominate discussions of institutionally related foundation staff and directors. The first is discussed in many forums and is even the subject of legislation in some jurisdictions. It has to do with the question of actual or perceived conflict of interest. The 1980s witnessed several large-scale insider trading scandals, and the public has become especially sensitive to this issue. AGB President Richard T. Ingram writes in an association publication, "A Guide to Conflict of Interest & Disclosure Issues" (1995), that "[s]ixty percent of public institutions... required [governing] board members to file a statement regarding their assets and business affiliations, according to a 1991 survey of AGB members... AGB increasingly is consulted by its members and the media on whether it has a position on specific situations involving a trustee or institutional officer that could be interpreted as being a real or perceived conflict of interest." Foundation boards must have a very clear conflict of interest policy, and directors must avoid any possible compromising situation. While many professionals from the investment field or allied professions are members of boards, each must deal with the intricacies of asset management in a manner that assures the public that (1) no unethical behavior is occurring in a given institution and (2) no such behavior would be encouraged or tolerated under any circumstances. For those foundations yet to deal with this matter, directors and senior staff should review the sample policy in Appendix B, Exhibit 6 of this volume. Other samples are available readily throughout the fund-raising industry.

The second issue also gained notoriety in the 1980s when investments were viewed as a form of "support" or "nonsupport" for various political stances and health-related causes. "Social-issue" or "political-issue" investing, as the practice became known, brought into question the responsibilities of the foundation board as prudent investors. In response, in the 1990s, many innovative investment vehicles were created to allow institutions to pursue these forms of investments. In so doing, an institution or foundation could register opposition to certain political positions or health-related activities while honoring stated investment responsibilities. The appropriateness of such social conscience investment policies and practices remains a matter for the foundation board. The investment industry provides a wide array of investment choices for virtually any course of action.

The Ultimate Advice

Foundation directors charged with the responsibility of investing and managing assets always must be sensitive to three potentially volatile areas:

1. how to assume responsibility for a foreign and complex task in the face of limited resources and high demand for increasing levels of revenue to carry out the noblest of plans;
2. how to become truly committed to a course of action when it requires unfamiliar skills that if misapplied might make individuals or the foundation financially and civilly liable; and
3. how to secure assistance from appropriate professionals in specialized areas of highly unstable careers, some of whom may be at the top of the field currently but still not be the best choice for the foundation at this time.

Prudence in all three areas remains the guiding principle. In modern portfolio theory, we are reminded that the investment field is largely a cyclical business. Robert Kirby, chairman of the Capital Guardian Trust Company, offered the following advice in the *Institutional Investor* (1988):

> Pension funds foolishly persist in flocking to managers with good recent records, then dropping them three years later. I am just as confused as everyone else when it comes to determining how to differentiate luck from skill when reviewing the results of a money manager. However, I am quite sure that while an intense focus on the investment results over the past 36 months may not be totally irrelevant, it is damn close.
>
> I have been asked a number of times what I would do if I had responsibility for hiring a money manager. My response has always been the same. I would go through the procedure that a company uses in selecting a law firm, a medical clinic or accountants. Find an organization of quality people with integrity, experience and dedication that is respected by its clients. When you have identified all the money management organizations that meet those specifications, hire the one that has had the worst investment performance over the past two to three years. ■

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[1] Roha, Thomas A., and Flaherty, Susan L. Q., "Stewardship—Serving on the Board of Directors of an Institutionally Related Foundation," a paper for the CASE/AGB/SIRF Conference, Baltimore, Md., April 27, 1995, pp. 1 and 2.

[2] Wellman, Richard V., et. al., "Prefatory Note," *Uniform Prudent Investor Act*, annual conference, National Conference of Commissioners on Uniform State Laws, Chicago, Ill., July 29-Aug. 5, 1994, pp. 1-3.

[3] Verity, Dennis H. and Thayer, Scott G., "Foundation Investments: Policy, Asset Allocation, and Performance," a paper at the CASE/AGB/SIRF Conference, Baltimore, Md., April 27, 1995.

Section III: Critical Issues

CHAPTER 8

Capitalizing on the Talents of Foundation Directors

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CHAPTER 9

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CHAPTER 8

Capitalizing on the Talents of Foundation Directors

Anthony R. Kuzneski
and Larry R. Panala

Excellence in higher education requires the understanding and support of individuals who empathize with the mission of an institution and who agree to participate in its pursuit. Directors of an institutionally related foundation have a unique opportunity to do so through the acquisition of private resources. The importance of the fund-raising role of foundation directors cannot be overstated. By virtue of their leadership experience in other venues, volunteer board members are in a key position to influence support for a college or university. This circumstance compensates to a large degree for the inactivity of public governing boards in fund-raising—a circumstance largely due to the fact that public college and university trustees infrequently are selected because of their institutional advancement skills. The foundation board member is a representative of the body with the highest profile in resource development. That fact alone suggests that the board members selected to serve must be consistent—personally and professionally—with that profile.

What Makes a Good Board Member?

Clichés abound for describing good board members. Among the more popular are these: a person who gives, gets, or gets out of the way; a person who exemplifies work, wisdom, or wealth—preferably all three; a person who is a pillar of the community and barely moves, or a mover that inspires the community to give. Each description contains one or more elements of truth, but the ideal college or university foundation board member is—above all—someone who can advance the institution materially. The board as a whole will perpetuate that same standard. Each board member must demonstrate a commitment to the host institution, must ascribe to its fund-raising program and objectives, and must be willing to engage in program activities that will lead to fund-raising success and ongoing personal edification.

Most foundation boards are characterized by affluence and influence—people who have the capacity to give and to persuade others to give. Ideally, all board members will satisfy these two criteria. A more realistic scenario is that some will enjoy the challenges of cultivation and solicitation activities and some will contribute in other ways, most notably in the prudent and productive management of the foundation's financial resources. Also, while a certain common focus is desirable, it must be balanced by diversity. Diversity in gender, ethnic background, and profession promotes a variety of perspectives and stimulates new ideas in approaching traditional problems. Developing boards must challenge nominating committees to find qualified female and ethnic candidates if the board is to represent the population it seeks to approach and intends to serve.

The Importance of the Nominating Committee

Recognition of the importance of a board's nominating committee is relatively new to most institutions. In the past, major emphasis was placed on the importance and worth of virtually every other committee, especially those responsible for finance and investment. Now, however, institutions and institutionally related foundations have concluded that long-term effectiveness and uninterrupted accomplishment are the products of the nominating committee's deliberations and recommendations. For this reason, some foundations identify this committee as "the committee on directors" or the "committee on directorship." Regardless of title, the nominating committee generally receives early, prominent, and somewhat detailed attention in the foundation's bylaws. The strongest and most influential board members should serve on this committee.

The nominating committee need not be overly large. One possible configuration is a five-person membership of the appointed committee chair, the board chair, and perhaps three other qualified individuals. The foundation's chief staff officer or another fund-raising officer also should be invited to sit in, perhaps in an *ex officio* nonvoting capacity. The committee chair and members should represent the most dedicated and respected directors and be of sufficient personal stature that nominees are honored to be asked to serve. The chair also must have rapport with the institution's president and seek and provide counsel at this level as new people are considered for board membership. Within the deliberative process, a great deal of detailed personal information will become available to the committee; such information must be treated with the same level of confidentiality as a major anonymous gift.

Once constituted, the nominating committee accepts several responsibilities as its charge. They follow:

- determine the board's composition in terms of influence, talent, capabilities, and diversity;
- recruit a board dedicated to the missions of the host institution and the foundation and with the capacity to address both;
- maintain an open-ended list of future qualified board candidates;
- provide for the orientation of new board members and for the ongoing education of all board members; and
- evaluate individual board members' performance and take necessary action to ensure the ongoing effectiveness of the board's work.

The Nominating Process

With its charges in place, the nominating committee develops a set of written guidelines and procedures to facilitate its work. Minimally, these guidelines include the following:

- the process by which nominations may come forward to the committee,
- the minimum amount and kind of information required on each candidate,
- the evaluation method to be used to judge a candidate's qualifications,

- the procedure by which committee recommendations are advanced to the full board for discussion and action, and
- the manner in which a successful nominee will be notified and invited to serve on the foundation board.

Once the general profile of a desirable candidate is decided on and the procedures are in place for the nominations process, the number of eligible and appropriate candidates may be far too great to justify consideration of all potential nominees. The committee must then screen candidates through other matrices. Generally speaking, the compelling question is "In what areas is the board under-represented?" The committee will want to consider at least four possibilities.

Constituencies. Many foundations enlist board members who represent various constituencies. While the foremost selection criterion remains the candidate's ability to advance the foundation's mission, representation of different populations stimulates a refreshing range of opinions and perspectives. Board membership will reflect an agreed-upon—though not necessarily equal—balance of representation from alumni, the institution community, and friends of the institution chosen from the external community.

Expertise. Once the private support needs of the institution are catalogued and the offsetting goals and objectives of the foundation are established, the board should reflect the necessary levels of expertise to move the entire program forward. The foundation has three essential functions: fund-raising, funds management, and gift stewardship. The foundation also requires legal expertise, some institutional historical perspective, and exemplary organizational skills. At any given time, the committee may identify a gap in any of these areas and structure its decision-making process accordingly.

Geography. America's population today is mobile. Many institutions encounter no geographic boundaries in the dispersion of alumni and other friends. In its quest for candidates, the committee should look well beyond state lines for able and noteworthy persons. The desire for wider board representation must be balanced by the need for active participation, but people of significant means often are accustomed to paying the costs related to such service. No candidate should be eliminated on the basis of presumed inaccessibility.

Diversity. Again, as the committee nears the end of a process to establish priorities, the matter of diversity deserves attention.

Society has become less of a melting pot and more of a buffet, with commensurate attention expected to be paid to each item. Achieving balance may be elusive; at times, it simply may seem impossible. But diversity targets, balanced against desired performance outcomes, always must occupy a place in the minds of committee members.

General Board Policies and Procedures

While a foundation's bylaws never will be considered great literature, a substantial amount of meritorious writing is present in well-constructed governing documents (see Chapter 4). The bylaws provide and describe the framework in which volunteers and staff members pursue the foundation's mission. The bylaws essentially are the chart for the voyage. As such, they give latitude for foundation operations and governance (among other attributes) but they should not aspire to describe in detail every possible port of call or all possible hazards along the way. Much of this information is left for other tools of operation and guidance, namely, policies and procedures. Together, they answer basic operational questions and describe acceptable methods the foundation directors and staff may use to attain the foundation's goals. Also, well-written policies and procedures provide protection by imposing standard business practices and uniform standards of conduct.

To the extent possible, these tools should remain outside the purview of the bylaws—even though it may be argued that bylaws, by nature, create policy. Certain policies beyond the bylaws need to be considered and enacted to help keep the foundation and its directors on course. Chief among them is the memorandum of understanding or operating agreement that defines the working relationship between the foundation and its host institution. The breadth of possible inclusions in such a document is detailed in Chapter 10, but the general rule of thumb is that the more autonomous and independent the foundation perceives itself to be, the greater level of detail required in the relationship document. As is true of any renewable contract, the first agreement is the most difficult to build; once accomplished, however, the required annual review and renewal process becomes a matter of fine tuning and reducing ambiguity.

The foundation board should enact policies that focus on directors individually. First among them is a meeting-attendance policy. At times, board members are uncomfortable with attendance requirements, but this policy assumes that each member agreed in advance to be active and productive in a manner outlined in a board member job description. (See Appendix B, Exhibit 4.) Service on a board requires a time commitment. A foundation's board must carry out its responsibilities. The policy can contain a provision for leaves of absence or excused absences, but the objective should be to sustain high-level, involved attendance in committee and board settings. If board leaders and staff plan carefully, board meetings and committee meetings can be scheduled in the same time frame.

The board also must address the potential for conflicts of interest or the appearance of such conflicts (see Appendix B, Exhibit 6). Each board member should provide information concerning any business or contractual relationship with the host institution or the foundation. The policy need not necessarily preclude reasonable or favorable (to the institution or the foundation) relationships, but rather should facilitate an open awareness among board members of such practices.

In keeping with the spirit of the host institution, the foundation board also may wish to have in place an antidiscrimination policy. This policy should underscore the foundation's commitment to diversity and varying points of view. It should be constructed carefully so as not to suggest quotas. A better approach is to rely on philosophy rather than mandated divisions or inclusions. Similarly, the board may wish to consider creating and adopting a code of ethics. Here again, the best approach is to keep the code short, simple, and for the most part, philosophical. The greater the number of specific standards for behavior, the greater the potential for perceived violation. In today's litigious society, creating a greater potential for lawsuits does not serve the best interests of the foundation or, for that matter, individual board members. Some foundations have addressed this issue by adopting existing codes developed as examples by the Council for Advancement and Support of Education and by the National Society of Fund Raising Executives.

Finally, the board may wish to consider how it will conduct its business in view of federal and state statutes regarding "sunshine" laws and right-to-know legislation. Guidance in these areas is provided elsewhere in this handbook, but board members need to know if its meetings are open to the general public, if the minutes of board and committee meetings (with the exception of legitimately called executive sessions) also are public information, in what form and through what vehicle audited financial information will be presented, and how much individual or composite information the board is willing to release on annual donors and gifts. Securing a legal opinion on the foundation's possible exemption from disclosure laws is a reasonable starting point for the policy design. The best advice, however, may be that foundation directors are wise to act as if the foundation is not exempt, even if it might be.

Roles of Permanent Committees

The foundation's bylaws provide for inclusion of those committees that, at the time of drafting, appeared to be needed in perpetuity. Such permanent committees are distinguished from standing committees that may have a long and open-ended "shelf life" and *ad hoc* committees that exist long enough to address a short-term program, project, or problem. While the number of permanent committees is a matter of judgment, the following model assumes six such committees: executive, nominating, finance, investment, planning and development, and public relations and marketing.

Executive Committee

The executive committee is chaired by the senior board officer, generally identified as the chair or president. This officer has the sobering task of providing leadership for the foundation and its board and for "doing things right" in terms of board management and leadership. Whether in the purview of the executive committee or a full board meeting, the senior volunteer officer must (1) ensure that the board does not exceed its authority, (2) ensure that issues addressed by the board are relevant and within the scope of responsibility, (3) ascertain that the board and its committees have the information needed to carry out assigned work, and (4) keep all meetings running smoothly while allowing for adequate, but somewhat choreographed, discussion and deliberation. This officer is also the chief liaison with the college or university leadership and as such, personifies the quality of that relationship. Of the three possible "Cs," conflict, coercion, and cooperation, only the last is potentially productive. The liaison activity is facilitated if the institution's senior officer sits in as a member of the foundation's executive committee. The committee thereby assumes an aura of power, importance, and influence—the most powerful among all committees.

The committee has broad authority and is sanctioned under stipulated circumstances and with certain specified exclusions to act on behalf of the entire board. The existence of an executive committee, however, does not relieve the rest of the board members of any ethical, legal, or fiduciary obligations and responsibilities.

The remaining membership of this committee generally includes the foundation's other officers and the chairs of permanent (and perhaps) standing board committees. Some effort probably should be made to ensure that the total membership of the executive committee does not exceed a quorum of the full board. Also, while technically the actions of a legally constituted executive committee do not have to be ratified by the full board (the authority for committee action is granted in the bylaws), these actions should be subject to review by the board and the minutes of committee meetings distributed to every board member.

Once constituted, the executive committee may assume any of the following responsibilities:

1. enforcing membership responsibilities, including attendance policy and committee appointments;
2. frequently monitoring the progress of board and staff in addressing the specific, current-year performance goals;
3. providing the same level of scrutiny for budget performance;
4. maintaining a close and candid working relationship with the leadership of the host institution;
5. following and evaluating the performance of the foundation's chief staff officer;
6. evaluating board performance by recognizing superior results or levels of service and by arranging for the departure of unproductive board members; and
7. acting on behalf of the board in times of emergency or necessary expediency.

Nominating Committee

This committee is second in prominence only to the executive committee; its duties are detailed earlier in this chapter. One additional function of this committee should be further discussed: the responsibility for board member orientation and continuing education. All members of the board must be briefed thoroughly on the vision, mission, and scope of the host institution; each member must have a clear sense of how foundation activities contribute to the institution. A well-structured orientation session for new board members is crucial to the start of tenure and ongoing service. It should include information on the status of the institution (this is especially important for alumni who only "remember when"), a brief historical review of the foundation (including the reason for its existence), a review of bylaws and general board policies, a biographical sketch of the other directors, and a presentation on the breadth of support staff and the division of board and staff responsibilities.

Nominating committee members need to keep in mind, however, that the orientation is only chapter one in the "textbook" for board member edification. Many foundations now dedicate a portion of each board meeting to an ongoing education process. Topics may include campus-based news or insights on wider world events, such as national trends in philanthropy. Both perspectives will permit the board to appreciate its need to succeed.

Finance Committee

The finance committee is responsible for overseeing the foundation's budget activities of revenue and expenses. Committee members do not serve, however, as day-to-day bookkeepers. Rather, they monitor the flow of funds to determine that generation and expenditures are compatible and consistent with the stipulated, overall foundation performance objectives. This responsibility is augmented by the participation of at least one person with a strong financial background, such as an accountant, trust officer, auditor, or bank executive. In contrast, the addition of one or two nonfinancial persons may prove helpful in ameliorating a strict "bottom-line" assessment of foundation financial operations, and by so doing, provide a valuable educational experience for these members.

Investment Committee

Like the finance committee, the investment committee deals with the financial health of the foundation. Its broadened responsibility, however, is the foundation's long-term fiscal condition through management of the investment portfolio (see Chapter 6). The enormity and seriousness of the task before this committee suggest that a good deal of advice and counsel are needed for its members. This committee's work often is augmented by retaining a qualified professional investment advisor or manager (see Chapter 7). The availability of professional counsel may permit one or two interested board members without financial backgrounds to "learn by doing" in the committee.

Planning and Development Committee

The purview of the planning and development committee is the entire range of philanthropic activity, including prospect identification, cultivation, solicitation, and recognition. The broadest context in which this activity takes place is the long-range plan. This three-year to five-year plan originates with this committee. Once the plan is accepted by the board, the planning and development committee takes on two complementary responsibilities. First, it monitors the plan's performance and reports to the board on status and outlook. Second, the committee initially reviews each annual strategic plan (principally developed by staff) to determine its compatibility with long-term goals and estimate what percentage of the long-range plan's goals and objectives will be met by a board-approved strategic plan.

The distinct advantage of this committee is that while its appointed nucleus can carry out the principal charges, any member of the board not otherwise encumbered when this committee meets may contribute productively to any discussion. The foundation is in the business of raising money for the host institution, making all board members *de facto* members of this committee. The core committee provides a particularly valuable training ground for future board leadership and may be chaired by a board vice president, if any line of ascension is assumed.

This committee divides naturally into special-purpose groups. Two such possibilities are a subcommittee on gift review and acceptance and a subcommittee on stewardship. The first insulates the institution against unwanted or questionable gifts, and in cases of gifts of real properties such as real estate or artwork, ensures that due diligence has been performed, environmental assessments conducted, and appraisals are reasonable and verifiable. The second validates the procedures in place to acknowledge gifts and inform donors of the appropriate and timely use of gifts. This subcommittee also can work with staff to determine if any special consideration or event might result from a particular gift and may suggest donors who might receive institutional awards from the foundation, the alumni association, or an academic department.

Public Relations and Marketing Committee

Of all board committees cited here, the public relations and marketing committee could be designated a permanent or a standing committee. Its principal responsibility is promoting the foundation's work and success, which presumably will beget more success. Even so, for most foundations, staff will be charged with developing brochures, mailing pieces, and newsletters. This committee remains responsible for the image of the foundation with the institution's community and external publics. From a practical standpoint, the committee may have these responsibilities: (1) review staff developed promotional pieces to ensure their consistency with the foundation's character and direction, (2) determine that public-relations initiatives are part of a comprehensive and coordinated public-relations program, and (3) monitor the development of materials in light of standards and guidelines, if a uniform graphic identity exists for either the institution or the foundation. The committee also may work with staff to determine how an unusual, particularly large, or otherwise meaningful gift might be best publicized.

Public relations is essentially an inside-to-outside effort to provide internal voices and faces to external publics. The public relations and marketing committee has a responsibility to provide information on these publics to the foundation board. Its "ear to the ground" approach to its target constituencies is an excellent resource for the nominating committee's ongoing board education program.

Emerging Policies

The deliberations of the board's several committees naturally will lead to board action on an array of committee recommended policies. The importance of written policy is clear in a society that demands consistency in action and increased accountability. For the foundation, policy is a safety net for board members and staff; it is comforting to fall back on. Not all policy is well-designed or well-written, but better to have something that needs changing than to have nothing at all. Some policy is applicable to foundations generally; some is specific to individual foundations. No attempt is made here to provide a complete or irrefutable compendium of policy statements. Instead, attention is given to suggestions in four essential foundation activities: administration, finance, development, and personnel.

Administrative Policies

Administrative policies govern the daily routine of the foundation's work. Perhaps the most important of these is the gift acceptance policy. This policy provides step-by-step guidelines detailing the types of allowable gifts and the manner by which gifts will be reviewed and accepted or rejected. As such, this policy protects the foundation and its donors. The trick in drafting such a policy is to be as specific as possible while allowing for special consideration for a complex offer or unusual gift. Generally, the policy will cover the potential for all of the following kinds of gifts:

- cash and personal checks,
- publicly traded securities,
- closely held securities,
- real estate,
- tangible personal property such as works of art, intellectual properties, collectibles, boats, cars, and the like; and
- certificates of deposit, mutual funds, U.S. Treasury notes, and savings bonds.

The gift acceptance policy also should include an itemization of acceptable, more complex, gift vehicles such as bequests, charitable remainder trusts, charitable gift annuities, pooled-income funds, life insurance policies, and life estate gifts. These gift arrangements usually require a foundation to work with its and the donor's financial and legal counsel to address matters of minimum gift values, direct-to-donor payout rates, and ultimate current or deferred use of funds.

In conjunction with the gift acceptance policy, the foundation also should provide for gift agreements. These agreements should describe any special situation influencing a particular gift and identify the specific allocation of responsibilities related to it. Simple, outright gifts may not require such documentation, but more complex gifts certainly will. Samples of agreements may be obtained from legal and financial counsel, the Internal Revenue Service, and other institutionally related foundations.

An adjunct to the gift acceptance policy is the gift acknowledgment policy. Once a gift is accepted, common practice is to thank the donor. Policy and accompanying procedures should be developed to ensure that all gifts received are receipted and properly acknowledged. The Internal Revenue Service provides guidelines for donors and recipient charitable organizations detailing acceptable receipting methods. The policy must address the need to verify or substantiate the value of a gift. Art, livestock, and antiques can be particularly challenging. But the key word in the policy is "acknowledgment." Donors must be thanked accurately, promptly, and appropriately for every gift received. Each acknowledgment must be a positive experience for the donor and regardless of the complexity of the moment, technical details and governmental regulations should not compromise the quality of the thank you.

Financial Policies

Once the foundation has accumulated assets, policies must be in place to support the second significant responsibility of the foundation: the prudent and productive management of those assets. Ultimately, the strength of the foundation will be measured by the level of endowed funds and the manner in which those funds are managed. A case is made in Chapter 1 for the flexibility foundation board members may enjoy in managing endowment. Flexibility does not equate to "without rules," however. These rules, usually developed with the assistance of counsel, are the substance of financial policies.

Investment Policy. The investment policy is the philosophical umbrella under which the investment committee goes about its business. The policy stipulates investment preferences, asset allocation, portfolio diversification, and investment monitoring procedures. The policy should include a statement on acceptable risk level.

Institution and Management Accounts. The foundation eventually will hold and manage hundreds, if not thousands, of accounts. The majority will be targeted to specific departments, programs, and special purposes such as scholarships and professorships. The foundation board is wise to approve certain standards or specifications for such accounts. The corresponding policy should address minimum fund balance requirements, clarity of account intention or purpose, appropriate and necessary paperwork, authorized custodian identity, and schedule of disbursements.

Endowment Payout. The least understood concept in foundation operations probably is the authorized endowment-income payout policy. Regardless of the percentage of return, most foundations payout 4 percent to 6 percent of the income and gains. The objective is to sustain the value of the endowment—that is, the income 30 years from now should be sufficient to underwrite the designated purpose at a contemporary level. Assuming that the foundation, by policy, assesses a fee of 1 percent of endowment to offset costs of administration and fund-raising, the goal remains to reinvest income and preserve gain at approximately a corresponding 4 percent to 6 percent. This target may be elusive at times, but it should be keep perpetually in sight.

Disbursement of Funds. In exercising its fiduciary responsibility, a foundation must execute the payment for all authorized requests in a manner consistent with its policies. The disbursement policy should (1) define how expenditures will be recorded and maintained, (2) identify the parties authorized to make payments, and (3) describe procedures required to request payment, including the required paperwork and the time line from request submission to payment.

Management Fees. If the foundation expects to recover the costs of doing business by assessing fees against managed accounts, the policy governing the assessment, including the current basis, should accompany all associated literature and be disclosed to the donor and any outside fund custodians.

Procurement and Purchasing. Foundations often are able to purchase goods and services with some expediency. But even though the foundation may not be subject to the onerous, multiple-bid policy of the host institution, a procurement and purchasing policy should indicate how good judgment and fiduciary responsibility will be honored in authorizing purchases.

Interfund Transfers. Internal, short-term borrowing from restricted funds is a legitimate financial activity under certain conditions. This policy describes those conditions, including the need for personal guarantees, if necessary. The policy protects the foundation's integrity with donors and the news media and provides flexibility in addressing immediate, temporary financial situations.

Audit. All charitable organizations are well-advised to underwrite and publish an independent annual financial audit. This policy should identify the time frame for the audit following the end of the fiscal year and the time or event for board review.

Development Policies

The greater the number of people involved in fund-raising on behalf of an institution, the greater the potential for confusion and duplication of effort. Coordination is the key, and well-structured development policies bring order to a sensitive area easily susceptible to chaos. The policy defines the hierarchy for the entire fund-raising process (see Chapter 5) and describes how the process will be carried out.

Cultivation. Good fund-raising programs are based as much on cultivation of potential donors as on the actual solicitation process. Cultivation policy should describe appropriate and acceptable behavior of volunteers and staff in interacting with prospective and potential donors, with some flexibility.

Solicitation. Before anyone contacts any current or potential donor, the standard procedure for solicitation should be review with the highest ranking foundation staff officer. Depending on the size and importance of the possible gift, the leadership of the development and planning committee might be involved as well. A policy governing these scenarios will help prevent requests inappropriate to the donor, inconsistent with the mission of the institution, or unsuitable for the foundation's operating or strategic plan. The policy also reduces the potential for multiple requests to the same person or funding source.

Recognition and Stewardship. Appropriate recognition of one gift often is prelude to the next. Recognition methods range from a simple letter to dinner with the college president or a dean to the naming of a building. The policy should make clear the level of gifts that will trigger any of the recognition levels, including naming opportunities with corresponding amounts. Stewardship goes well beyond providing gift receipts; it is the public demonstration of appreciation for donor generosity.

Gift Reporting and Tracking. In view of the potential for current gifts, deferred gifts, and long-term and short-term pledges, the foundation must exercise care in reporting the success of its fund-raising program. For example, care must be taken not to double count a gift pledged today and paid tomorrow. Some adjustment usually is made for the value of annuities at the somewhat predictable time of maturation—that is, the annuitant may stipulate a current value of $100,000, for example, but the gift will not have the same purchasing power when it becomes available for its charitable purpose some 20 or more years hence. The credibility of the foundation will be measured in part by a clearly stated policy on gift reporting and tracking.

Capital Campaigns. Gift counting is just one of the issues especially germane to capital campaigns. Budgets that support the foundation's usual daily routines will not support a capital effort to construct a multimillion-dollar facility, create a new discipline, or fund in a compressed time frame a smorgasbord of institution funding priorities. The foundation must know under what conditions it will be the locus for a capital effort and its authority and breadth of responsibility. The policy should delineate the conditions and circumstances under which the foundation will conduct a campaign on behalf of its host institution; it also should spell out the balance between responsibility and authority.

Personnel Policies

The foundation board rarely, if ever, will be involved in the daily operations of the foundation. But board oversight encompasses certain activities that affect foundation personnel. Some of them follow:

Hiring Practices. The board should approve the process for recruiting, interviewing, and hiring foundation personnel. Its direct involvement in these procedures should be limited to the foundation's chief staff officer and perhaps approvals of nominees at other senior levels. Provisions for probationary periods should be detailed clearly.

Conditions of Employment. General work practices and benefits should be documented to ensure that all employees understand the conditions of their employment. Policies should define expected working hours, break periods, payment schedules, vacation, other leave time, health benefits, and retirement programs.

Disciplinary Guidelines. Situations may arise that require board intervention to address questionable or inappropriate behavior of a staff member. The procedure for all disciplinary action should be well documented in the foundation's policy manual and employee handbook or manual. The policy should include steps leading to dismissal.

Conflict of Interest. Given the nature of development work, employees must understand that fund-raising is restricted to the foundation and host institution. Any effort beyond informal or otherwise authorized counsel to any other organization represents a conflict of interest. This policy provides dual protection for the foundation and the employee. The information held by the foundation is restricted as to use, and the employee legitimately can decline requests for information or action that might benefit other charities or causes.

Performance Evaluations. Board approval should be given to the general evaluation standards and procedures used to assess staff performance. Additionally, the board should agree on the method and timing for the performance evaluation of the foundation's chief executive officer. The latter evaluation can become complicated if the foundation officer also is an administrative officer of the host institution. Fairness dictates that the relationship between the separate evaluations be well defined.

A Final Observation

The diverse nature of institutionally related foundations requires that to some degree, local circumstances influence the nature and scope of board policies. Many policies beyond those implicit in the bylaws and those regarded here as somewhat universal will be products of the foundation's growth and maturation. Foundation boards do not have to spend inordinate amounts of time speculating on possible policy needs. Policy will develop as needs arise. Ideally, the policies enacted will be well constructed and generally applicable to the operations and well being of the foundation. Too many policies probably are preferable to too few, but board members should realize that policies should focus more on what is to be done rather than on what is prohibited. If any policy is found to be impractical in application, it should be changed or discarded. ■

CHAPTER 9

Funding the Foundation

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The great paradox of fund-raising is that while everyone delights in gifts, no one at the college and university level wants to pay the costs associated with making gifts a reality. Sooner or later, every foundation board member will be called upon to articulate, perhaps even defend, the special role the foundation plays in bringing significant gifts to the host institution. By necessity, that articulation will include an understanding of the complexities of the fund-raising process and the intricacies involved in meeting the expenses associated with gift acquisition. Foundation board directors will be among the first to recognize that gifts are more than money.

Gifts are invaluable resources that enable an institution to move toward its goals. A walk across the campus will bring foundation directors face-to-face with students who enrolled because they received scholarships; faculty whose teaching and research are enhanced by new equipment and library resources gifts have provided; and facilities, some of them gifts themselves, wherein programs are funded by gifts that nurture the creation of beautiful music, promote acquaintance with other cultures, and stimulate ground-breaking discoveries.

Gifts also are a visible manifestation of the link that exists between an institution and those who believe in it. Donors, too, have goals and dreams for higher education; their gifts are one way in which they have chosen to realize those dreams. For donors, gifts are not about money first. Rather, gifts are expressions of hope moved toward reality by the donors' values and largess. The old fund-raising adage holds true: "Gifts begin in the heart, with an emotional decision." Only after the emotional decision is made do donors and development staff begin to talk about tax advantages, outright gifts, charitable remainder trusts, investment returns, and the like.

The institutional units, as beneficiaries, see gifts as a means to realize other goals: an endowed professorship that will make the department or school a center for advanced learning, scholarships that will enable young people or returning students to change the course of their futures, or facilities that will help make possible research that will save lives. Gifts are not merely about money. For all involved, gifts have a meaning and importance that is woven inextricably into plans, goals, hopes, and dreams they have set for themselves and shared with others. Consequently, policies and plans relating to gift receiving are of great interest to all components of the institution and the foundation. They have implications far beyond those attributes that are readily apparent. What, then, is a fair price for the tangible and intangible values of gifts to colleges and universities, and what parties are obliged, if not necessarily eager, to pay it?

"Cultural Diversity" of an Organizational Kind

Whenever the institution and the foundation discuss funding for fund-raising, two organizations with essentially different purposes come to the table. Both share a vision of higher education in general and a corresponding approach for a respective contribution to it. But the two organizations have different cultures, and each is not always fully understood by the other. Higher education institutions create and transmit knowledge through teaching, research, and creative activity. Foundations create and maintain relationships that result in people dedicating time, talent, and funds to address the needs of the host institution. In addition to focusing on donors, foundation relationships exist among board members, with institutional governing board members, and with other volunteers. The process of creating and nurturing these relationships requires foundations to conduct activities and incur expenses alien to the academic world. Donor relations functions look like "parties" to the academicians. Necessary, if expensive, publications are seen as "extravagances" and frequent travel as "junkets." From an academic perspective, the institutionally related foundation can appear to be an enigma. And like an unfamiliar country, a foundation's customs and priorities need to be explained and understood.

Even when the protocols and functions are explained fully, however, foundation activities may not appear fruitful to the entire academic community. Faculty members who hear that the institution's foundation has raised $50 million in current and deferred gifts may not see any visible changes in their particular departments. Others object to the fund-raising function itself. Asking for money seems distasteful to some, especially those who are deluged with impersonal fund-raising appeals in the mail or over the phone. The uninitiated may not understand that gifts, especially major gifts, are often the result of a long and well-nurtured acquaintance and a great deal of respect, even love, for the institution. Many gifts are made with the hope and belief that the educational environment will be enriched, thereby changing the life of a deserving student or enabling a professor to create beautiful art or conduct ground-breaking research. People who give such gifts often speak of feeling "privileged" to be a part of the important work of the institution.

Even the more enlightened deans, department heads, and business managers who recognize the value of gifts in providing resources and creating long-term relationships also realize that they have to deal with their own financial hobgoblins or biases against fund-raising. They may see expenditures for fund-raising as money that could be better spent on the "real" business of the institution, especially if the expenditures encroach on their own budgets. At the same time, the fund-raisers wonder how they can work miracles without the essentials (such as travel and office space) for which expenditures pay.

Overcoming obstacles in seeking funding for the foundation is a constant, sometimes contentious, and often frustrating challenge. The facts of life for development staff have been stated many times in many ways for many years: "You can't raise money without spending money; within reasonable limits, the return is likely to be commensurate with the investment."[1] Returns on investment in fund-raising are phenomenal. "[P]ast experience has proved that one of the best investments universities have made in the past 20 to 30 years has been providing seed money from university funds to launch a foundation. Generated gift funds have paid back those operating funds in ratios from 20-to-1 up to 100-to-1 and more."[2]

For the good of the foundation and institution, foundation directors must accept the responsibility to become familiar with the world of fund-raising and explain it to others. Resolving the issue of paying costs related to fund-raising is prerequisite to a foundation's success. Further, the volunteer directors and the foundation staff have to tackle the hard task of identifying, with some level of certainty, the sources of those funds.

Start-Up Funding: The Realities of Return on Investment

Only two sources are available to underwrite the administrative and program costs of a foundation: the institution and the gifts the foundation receives. Whatever creative variations and combinations foundations or institutions use to generate funding, the reality comes down to these two. The process of making the decision about how to fund a foundation or to change the way an existing foundation is funded will call into play all of the factors associated with scarce resources and the allocation of operating funds. The process is subject to all of the perceptions and priorities of the individuals involved. The task rarely is easy.

Institutional Resources

Given the obvious great benefit that institutions stand to reap from affiliated foundations, colleges and universities often are willing to provide funding for fund-raising to some degree. The first question that arises in response to a proposal for support is fundamental: Should institutions fund foundations? The answer is implicit in the mission of the foundation. Foundations exist only to serve institutions; in providing service, a foundation is guided only by an institution's academic priorities. The stronger the link between the two entities, the greater the potential for success. One such link is funding. The institution receives a service and should pay for it. The funding link keeps the foundation accountable. It implies some level of institutional leverage, influence, or control. It connects the two organizations, promotes mutual understanding, and enables joint endeavors to be undertaken more easily and effectively.

The most direct form of institution-based funding for a foundation is an assessed fee for development activities and related services. The fee schedule may be predicated on either a lump sum originating with the president's office or in pieces from various schools and constituencies, including—in large university systems—various campuses. The inherent difficulty in breaking a fee into pieces is the inevitable conflict over who pays how much and how "fair share" is determined. Allocating costs among institutional entities is a valuable lesson for administrative heads in calculating the anticipated costs of fund-raising, but it has its own added costs of time spent on annual negotiations and ongoing discussions concerning whether each unit is getting "what it paid for." A college president who understands fund-raising and is supportive of its goals probably will favor the lump-sum payment method.

Determining this lump sum is no easy task. The exercise raises several questions. Is the fee merely the shortfall between the foundation's operating budget and its other sources of income? Should the sum be a fixed percentage of the foundation's budget? If so, what percentage of the operating budget should the institution contribute? Does any particular percentage signify or imply more or less control over the foundation? Should the percentage be constant or should it be renegotiated every year on the assumption that, as the foundation's assets grow, its own available revenues will grow as well? Should the sum be a fixed amount, dictating that the foundation will find ways to underwrite annual additions to its budget for programming and personnel? If fixed, and the foundation board elects to reduce its budget, should the institution receive reimbursement at the percentage of reduction? If the foundation ends a year under budget, should any portion be refunded to the institution or should it be credited against the coming year? Should any attempt be made to devise a direct, nearly mathematical relationship between the fee and the number and type of services performed on behalf of the institution? Should the contribution be tied to a specified goal or other measure of performance?

These questions are important because, once again, a discussion about money never is just about money. The amount of funds and rationale for them dictates in part the nature of the relationship between the institution and its foundation. That relationship will be played out in a hundred different ways each year depending on the major players' assumptions about and interpretations of the funding agreement (see Chapter 10). In some states, the lack of a direct, documented relationship between the fee and services performed or variations in the fee paid by the institution from year-to-year not related directly to a particular level of service may constitute an argument that the institution is not actually paying a fee for service but making an appropriation to the foundation.

Wherever an institutionally related foundation is fighting to maintain its stature and status as a private organization separate from the institution, additional vigilance is required in structuring any lump-sum fee agreement.

Fees may be assigned on a piecemeal basis. This approach represents a general change from historical institutional practice, wherein each department or administrative office provided its services for free to all other departments and offices in a spirit of institutional cooperation. While trying desperately to preserve the "spirit of mutual support," an increasing number of institutions are turning to some form of responsibility-centered management or financial accountability by unit. This trend may make the fee-for-service concept a more palatable financial relationship between the institution's units and the related foundation.

A foundation might, for example, charge a monthly fee for every gift account managed or for every check written. Tax returns or other special services for trust accounts might merit a charge. If the foundation prepares or contributes time and talent to the institution's development publications, the foundation might charge for its writing, editing, design, and production services. The foundation's research staff might charge for every prospective donor's biography. If a telemarketing program is run by the foundation, charges might be assessed for every completed call or every gift made.

The downside of service-specific fees is obvious: A great deal of record-keeping and paperwork are required and the charges have to remain competitive with comparable services offered by other units of the institution or the private sector. The most serious consequence is the distinct possibility that those who might avail themselves of services will do without or will purchase less expensive assistance that is not necessarily more capable. The impact on the success of the fund-raising program could be significant, particularly for institutions that are smaller, less well-endowed, or newer to the fund-raising process. An elaborate fee schedule perhaps is inconsistent with a foundation's purpose. The business of the foundation is to encourage fund-raising, not make it more complex and difficult.

In the past, some institutions have supported related foundations by assigning to them some portion of income coming to the institution from outside sources, such as royalties, patent and licensing income, or the overhead on research grants. This practice almost always creates friction between the foundation and institutional staff who believe those funds should be retained by the institution or used only for costs associated with technology transfer. Also, the assignment of and expenditures from overhead funds need to be monitored carefully. Several institutions have run into difficulties in recent years because the overhead portion of grants was used in ways that did not relate directly to the intentions or stipulations of grantors. The use of such funds in today's world to support foundation operations probably should be discouraged.

Funding from Gifts

The goal of any foundation is to make available to the institution as much of every gift as possible. Even if 100 percent of every gift is deposited in an account, costs incurred in acquiring and managing gifts must be covered somehow. This requirement often conflicts with the concerns of various interested parties. For example, most donors and institutional account managers prefer that the original gift be kept intact to perform its intended purpose. A "gift tax" that takes a small percentage of each gift for operating expense is inconsistent with that preference: A student might have difficulty understanding why a $1,000 scholarship has a face value of $950. But even in the absence of a "tax," foundation income may originate with gift income.

One of the more common approaches is to invest pooled small-gift or modest-gift funds in short-term, interest-bearing accounts and keep the returns on the "float." At the other end of the spectrum, a foundation should have scheduled payout dates from its endowment accounts, and while the affected faculty member or dean should be notified of the availability of funds for a project or program, the funds should be transferred on request from a holding or expenditure account. The combined funds in the expenditure account also are invested in short-term instruments and the income is retained by the foundation. These accounts function as noninterest-bearing checking accounts for the institutional units.

Under certain circumstances, fees, as opposed to "taxes," can be assessed directly against or paid from gifts once they are received. For example, an institutional account manager could decide to pay the cost of a telemarketing call from the funds accumulated as a result of the telemarketing program. Alternatively, if the foundation employs students or trained phonathon or telethon personnel, a day or more on the telemarketing schedule might be purchased by a unit of the institution. The purchase price may be a set amount or a percentage of the "success." In either case, the payment originates with the gifts, not the unit's operating budget. The foundation also might decide to base a fee on the total dollar amount in a particular institutional unit's gift accounts at a set time during each year. These fees are similar to those charged to units for services but in this case, the foundation and institution decide that the fees will originate with gift funds. A word of caution: If some portion of a gift will be used to pay fund-raising costs, solicitation materials should make this clear. This disclosure might read as follows: "A portion of this gift may be used to defray the expenses of fund-raising." Any terminology used should have the benefit of review by legal counsel.

The most common and potentially most lucrative source of funding for foundation operating income is an assessed management or administrative fee on the market value of endowment accounts. These small-percentage fees range at various institutions from half to twice as much as fees commonly charged by outside investment management firms. The variation is accounted for by the amount of funds currently invested in the endowment accounts and consideration of the fixed costs of the foundation (see Chapter 3). The greater the former and more constant the latter, the smaller the percentage assessed against endowment balance. In any event, setting the fee is a balancing act wherein the needs of the foundation must be balanced against internal public relations with affected units and with the ongoing performance of the investment portfolio (see Chapters 6 and 7).

Although many institutional administrators understand and accept the fact that an endowment-based investment fee is a necessity born of funding concerns, others, especially those whose endowments are the largest, may feel they are carrying an undue share of the funding burden. Those individuals may seek to establish accounts outside the foundation in an effort, however ill-advised, to use managers who charge lower fees. This diversion takes gift funds outside the control of the foundation and the institution and raises serious questions regarding ongoing compliance with strict regulations designed to protect donors, the foundation, and the institution. The practice also reduces the amount of funding the foundation derives from this source, compounding a problem by making it harder to lower fees in the future. Institutional leadership can help by confirming that endowments and other gifts are gifts to the institution, not the personal property of any individual within the campus community.

Charging such a fee affects the foundation's investment policy and practices. The fee draws off income that otherwise might have been reinvested. The foundation investment managers, with board policy, must factor the fee into the investment hurdle rate. In other words, if the goal of the investment management program is to maintain or increase the funds' purchasing power over the long-term, then investment returns at minimum must meet the total of inflation, fees, and distributions from the account. For growth to occur in the fund, the earnings must exceed that total—a laudable objective for a good investment program. Despite these several challenges, the investment management and administrative fee provides a foundation with its most stable and consistent source of funding.

Another potential source of funding is unrestricted gifts, which are valuable to the institution in many ways. Not only do these dollars give the institution flexible funds that can be used to further priorities and fend off the unexpected, they also provide a possible source of funding for the institution's related foundation. Because unrestricted gifts are coveted to such a degree, institutional and foundation leaders should agree early on about how such gifts will be expended or otherwise allocated. The institution simply may direct all unrestricted funds or some portion of them back to the foundation for expenses. If so, fund-raising materials should specify that some or all of an unrestricted gift might be used to offset fund-raising expenses.

One excellent use for unrestricted funds is to cover some of the costs associated with accountability—the costs of printing and distributing the foundation's annual report or annual audit report, for example. Regardless of the use, the trust implicit in a gift of unrestricted funds requires that the institution and the foundation agree in writing on acceptable uses of and priorities for unrestricted funds. Further, this statement should declare that the approved uses be reported at least annually to the respective boards. Donors who make major unrestricted gifts should be informed similarly. In addition to being responsible stewardship, these levels of reporting educate donors and governing board members about the complexities that characterize the fiduciary relationship between the institution and its foundation.

Justifying the Cost: Return on Investment in Fund-Raising

As is true of donors, those persons on campus who contribute want to know that their contributions are well used. At some point, the institution's leadership, deans, or a curious or disgruntled student or faculty member will want the foundation to justify its requests for operating dollars, fee proposals, or other policies and practices for acquiring operating funds. And if their interests are part of any funding formula, they surely will ask what they are getting for their money or challenge the foundation to demonstrate that it is doing the best job possible under prevailing conditions. Neither scenario accommodates simple responses. The variables involved cause seemingly comparable and successful institutions to arrive at very different answers. The variables encompass (1) how costs are defined, (2) how well those costs can be captured, and (3) how gifts are defined.

The cost of fund-raising is calculated in various ways. The assumptions implicit in the calculations are worth examining. Do costs, for example, include only foundation expenses or expenses of fund-raisers at the institution as well? Do the costs of fund-raising include support areas, such as research or information systems? To what extent is overhead included as a cost? Are salaries prorated depending on what percentage of a staff member's time is spent on fund-raising activities? Are capital expenditures included?

The most recent and perhaps most comprehensive study that provides a consistent set of definitions and standards for fund-raising costs is one conducted in 1990 by the Council for Advancement and Support of Education (CASE) and the National Association of College and University Business Officers (NACUBO).[3] This survey of 51 institutions of various types resulted in standard definitions that each institution can use to calculate its costs in relation to the fund-raising figures it reports annually to the Council for Aid to Education.

Presently, institutions and their related foundations are making greater use of the standards, but the criteria are not yet applied consistently. As finance and development staff apply the standards more consistently by using the form that comes with them, the criteria will become refined and useful. The form, as it relates to fund-raising and foundations, identifies several categories of expenses, including capital expenses, and allows for many staff members to divide their time among various responsibilities, including fund-raising. The published information originating with participating institutions enables readers to examine and compare amounts spent per alumnus, per student, and so forth.

This kind of analysis leads to questions on the other side of the equation, the gift side. When calculating the cost of fund-raising activity in terms of resulting gifts, should only the actual dollars received during the current year be included or are confirmed pledges counted as well? If the foundation and the institutional units operate under a decentralized system and have separate development staffs, how is a gift's "credit" assigned or apportioned? How are costs assessed against planned gifts when the exact value is not known? A useful and reasonable yardstick for the latter is an internal policy based on established Internal Revenue Service or other guidelines. Those values may be added to cash, documented pledges, and other confirmed-in-writing expectancies to generate a "results table" for a single year. Care must be taken, however, when calculating annual results to "back out" pledge payments included in previous year calculations. Neglecting to do so will result in double counting.

Information on expenditures and gift income leads inexorably to curiosity about how those numbers are related. Can an accurate and dependable figure be derived for return on investment, one that is useful to the institution and its foundation and facilitates comparison with similar organizations? The answer is yes and no. That is, a calculation for return on investment may prove useful if it is applied consistently from year to year. However, the calculated figure may not provide either a useful comparison to other institutions' foundations or a confirmation of the efficiency and effectiveness of a particular foundation. Too many variables affect an organization's costs and gift income to make comparisons easy or valid.

One difficulty arises because different types of gifts have different acquisition costs, and various facets of fund-raising operations have varying returns. At the bottom of the "donor pyramid"—the broad base—are the returns from annual giving, chiefly receipts from mail and telephone programs. These efforts are directed not only at renewing donors, but also at reacquiring lapsed donors and acquiring new donors, generally a larger and more resistant group. At this level, the institution or foundation may spend 50 cents to $1 or more to raise $1. The high cost is justified because of the importance of acquiring donors continuously, knowing that many of today's new donors can be moved up the donor pyramid for a smaller incremental cost.

At the next level of the pyramid are "found donors"—those who are intrigued by a special project or a campaign in progress. Because these are one-time events of special interest, these donors are more likely to give larger gifts even though some still may be solicited for an annual gift as part of another general constituency, such as class, school, or major. The common wisdom is that these gifts may cost 20 to 25 cents on the dollar.

Still further up the pyramid, at the major gift level (and what constitutes a major gift varies by institution—at a comprehensive research university, a major gift might be $25,000 or more over five years), gifts often are acquired for perhaps 10 cents on the dollar. These gifts originate with donors who are involved closely with the institution. In any given year, the costs associated with talking with them, their families, and their advisors; providing them with expert staff assistance; sending them annual reports and other institution or foundation publications, material, and information; and inviting them to functions is small in comparison to the size of the gifts they eventually will make.

At the very top of the pyramid are the donors who make planned gifts. In general, these gifts are the largest the institution will receive. The costs associated with acquiring them are small perhaps not in absolute terms but in comparison to the anticipated returns. Costs for these gifts may be calculated at 2 to 3 cents on the dollar. Makers of planned gifts are a part of the generally accepted 80–20 rule (more recently described by some as the 90–10 rule, and narrowing), in which a small minority of donors make up the greatest percentage of giving. The rule is especially appropriate in a capital or comprehensive fund-raising campaign when the emphasis is on planned and major gifts. The overall cost of a campaign with a large goal at a major, well-established institution might be as low as 5 to 8 cents on the dollar.

In addition to arriving at the costs of various types of gifts, numerous other factors influence a foundation's return on investment. For example, is the development effort conducted primarily by staff professionals or by volunteers? How mature is the foundation? How mature is the institution? How well-established, prosperous, and numerous are its alumni? What is the institution's history in fund-raising? Is it consistent with expectations? What is the size of the endowment? How many years were required to get to that level? What has the fund-raising emphasis been? Are fixed costs high or low?

With all of these factors considered, the generally accepted norm is that the expenses of a mature, comprehensive fund-raising program will be about 15 percent of the dollars raised. The CASE–NACUBO study confirmed this number, finding the mean to be 16 cents per dollar raised.[4] Yet the median was 11 cents and the middle 50 percent of institutions surveyed ranged from 8 to 16 cents; obviously, half were above or below the extremes of this range. And in some contrast to costs associated with long-established programs, a 1989 study conducted by Royster Hedgepeth, vice chancellor for university advancement at the University of Massachusetts, concluded that "thirty-five cents on the dollar appears to be acceptable for those [institutions] involved in new or expanding programs."[5] In general, return on investment in fund-raising improves as the institution develops traditions and expectations, staff becomes more sophisticated, alumni grow older and have more discretionary income, major campaigns are conducted, and planned gifts are realized.

The real challenge to any foundation is determining whether the numbers that appear to indicate greater efficiency also indicate greater effectiveness. Some researchers suggest that determining effectiveness requires linking institutional potential—as described in the CASE-NACUBO study and by other researchers—to an arithmetic evaluation.[6] Monitoring marginal cost—the increase in cost as compared to the increase in dollars raised—is a much better method, the researchers say, of assessing performance. As an institution approaches its capacity or fund-raising potential the marginal cost rises.[7] When marginal costs rise dramatically and the resultant increase in gifts is low or, theoretically zero, the institution has reached its fund-raising potential.

Actual case histories, however, point out possible flaws in this theory. For example, a researcher might have concluded that a particular major West Coast institution had little fund-raising potential. Its largest campaign goal had been $6 million, and it had fallen short of that goal by $2 million. Seven years later, its annual and major gifts programs had been considerably strengthened and its foundation board reorganized. The university launched a campaign that resulted in $470 million in gifts.

Another researcher suggests that return on investment calculations are for naught unless "gift utility" is considered. Is the institution getting the "right" gifts—those that are strategically important to the institution and enable it to make progress toward carefully thought out and articulated institutional goals?[8]

Ultimately, the institution and its foundation must decide what level of investment is justifiable in anticipation of a reasonable return. For example, is an investment of $10,000 that results in $100,000 preferable to an investment of $40,000 that raises $200,000? The institution may elect to net $160,000 even at the higher cost per dollar raised.

All those associated with college and university foundations—directors and staff as well—want to know in some objective sense that the foundation is doing a good job for the institution it serves. Is the performance somewhere on a continuum from acceptable to exemplary? Within broad guidelines, comparisons with other foundations may be possible. By applying national norms to each year's returns, foundation representatives may be able to persuade various members of the campus community that performance is at or above average. But recognized variations among foundations, institutions, and fund-raising programs hedge any statistical analysis seeking to provide definitive answers. Such analyses might not point a given foundation in a direction that will improve performance numbers. Perhaps fund-raising is in reality "not only about money," and is too much an art to be captured in figures alone. Perhaps the only way to assess the efficiency and effectiveness of a fund-raising program is to ask, "Are we as a foundation doing the right things?" Top-notch college and university presidents, well-trained and empathetic development professionals, and dedicated directors know the answer and will guide the process. The operative rule is simple: Do the right things, keep on doing them, and the gifts will follow.

Balances and Leverages in Maturing Foundations

Generally speaking, maturing foundations become more efficient, in the sense that accelerated gift income results in accelerated operating income as the endowment grows and the annual short-term "float" investment increases. Here the operative rule simply is to do more of what the foundation does best: Raise funds. Even as the foundation adds specialized staff in investment and finance, for example, or purchases more sophisticated computer hardware and software, the cost per dollar raised should decline as the well-run, volunteer-assisted foundation moves along the pathway toward increasingly greater success.

This scenario, however, should not invite complacency. As the annual costs of fund-raising inevitably increase, other factors will affect a foundation's ability to conduct its business. Chief among them is the likelihood that the contribution originating with the institution's budget may tend to remain static or actually decrease in relative and real dollars. The competition for education and general budget allocations in the 1990s among departments is intense. Given the general distaste for underwriting the costs of fund-raising, a foundation can expect to be at some disadvantage on the budget battleground. At one East Coast institution during a Saturday retreat on cost-savings initiatives, one prominent faculty member suggested in all seriousness that $1 million could be saved annually simply by doing away with the entire development program.

If a foundation increases its reliance on unrestricted or undesignated gifts as a source of operating income, deans and department heads—even presidents—may become more agitated. Many academic leaders view unrestricted gift solicitations as direct competition for school, college, or departmental gift support. Accordingly, they may resist any suggestion that the institution emphasize unrestricted giving, especially if the assumption is that the increased revenues will be reinvested mostly outside the institution's academic areas.

A third noteworthy budgetary pressure point is the advent of a capital campaign. A campaign in its purest essence is expected to accomplish over a period of five to seven years what might take 10 to 15 or more years to occur under noncampaign circumstances. A campaign is a compressed, accelerated fund-raising effort. As such, it has built-in efficiencies. The cost of fund-raising during a multimillion-dollar campaign may drop to 8 to 10 cents per dollar raised. But campaigns are expensive and consume a fairly large amount of discretionary revenues to develop an extraordinary amount of restricted funds for endowment and capital purposes. This fact often belies the expectation that campaigns must pay for themselves. Nevertheless, foundations increasingly are expected to recapture the cost of a capital campaign, especially in instances where the host institution advances the foundation significant dollars in anticipation of campaign-related costs. One New England university involved its foundation in its first capital campaign and funded the activity with an expectation for repayment. The initial campaign goal was $25 million. The actual outcome, using generally accepted campaign counting guidelines, was $55 million. The foundation, however, had not made a plea for recovering the cost. When the campaign was over, the foundation owed the university $1 million and had no obvious capacity for making the repayment.

In the face of these possible budgetary pitfalls, a foundation will do well to have some diversity in its income plan. For example, mature foundations may venture into such areas as real estate holdings, whereby property is purchased by the foundation for eventual use by the host institution; in the interim, rentals and leases provide income for the foundation. Such arrangements may require the payment of federal taxes on unrelated business income, but that fact should not discourage this type of activity.

In terms of the institutional commitment, the foundation should not concede its fair share to other areas of the college or university. Its work is valuable and its investment and return of the person-power brought to the fore through volunteers in the fund-raising effort clearly make it a "best buy." The foundation should view itself as a profit center and dissuade others from seeing it only as a cost center. The severity of the fight for funds, however, must be gauged and waged in terms of the percentage of the operating budget this source represents. Foundations do well to avoid controversy and criticism. Victories may be satisfying financially, but also may be Pyrrhic in terms of campus-based rivalries thereby ignited.

A capital campaign can prove beneficial for the participating foundation. One usual byproduct of a successful campaign is a marked increase in annual giving. This phenomenon holds promise for unrestricted giving—that is, the percentage of unrestricted gifts may hold steady, but the amount will increase impressively—and for the short-term investment return on current gifts. One major East Coast university launched a $75 million campaign, ended with close to $200 million (by applying most of the campaign counting guidelines), and simultaneously increased annual giving from $9 million to $21 million. The short-term investment return potential on an additional $11 million is a number worth contemplating.

The campaign itself need not be a rancorous exercise in deciding on who pays for what. Advance funding should be accompanied by an advance agreement with realistic terms arrived at through a series of discussions between representatives of the foundation and the host institution. Strategies exist for offsetting the costs of a capital campaign. Large gifts, for example, may be held for one or two years (with the knowledge of the donors) and the investment yield may be used to defray the costs associated with securing gifts. Additionally, if part of the foundation's budget ordinarily is underwritten through an assessment against the endowment, one technique during a campaign is to fund part of the incremental costs by adding a fraction of a percentage point to the assessment, with the understanding that the additional charge will end when the campaign ends.

Whatever the strategy, all parties should be reminded that in any fund-raising scenario, discussion of funding a foundation's operations is about more than money. It is an ongoing process resulting in a series of fluid decisions. These discussions are about values and priorities and the benefits of gifts already received. The focus should be on the vision that promises to change lives for the better and the role of the foundation in moving the institution toward that ideal. ■

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CHAPTER 10

Building Solid Relationships with the Host Institution

Thomas R. Popplewell

The conditions that spawned the birth of many independent foundations at public colleges and universities remain in place today. In the past 25 years, practically every state has struggled with seemingly insurmountable budget problems. In attempting to balance budgets, many state lawmakers seem to view higher education as a discretionary expense and seek to transfer a greater percentage of higher education's cost from the taxpayer to the student. Inevitably, as many institutions received fewer funds (and grew to rely on them less), they began to search for other sources of income. Consequently, as many public institutions passed on the state's budget woes to students, tuition at many public institutions increased to a point where attending a public college or university became only a dream for many qualified students.

To address the dual issues of escalating tuition and declining state revenues, institutions have encouraged alumni to establish scholarships and support academic programs through private giving. As these and other fund-raising activities have expanded, many institutions soon learned first-hand about impediments to fund-raising, including the character of institutional governing boards, the complexities of internal administrative structures, and the responsibilities of public institutions to comply with freedom of information and sunshine laws among others. To help minimize some of these impediments and maximize fund-raising initiatives, many institutions established independent foundations with the assistance of influential alumni and community leaders.

During the early years of a new foundation's establishment, the relationship between institution and foundation may resemble that of new parents and a young child. A parent is responsible for caring, feeding, and nurturing its offspring and must provide a safe, challenging environment in which parent and child learn to grow together. The institution usually provides a similar degree of care and direction. Like some parents, however, the institution may resist delegating responsibility and encouraging independence; it also may sustain a disproportionate amount of control over the foundation's operations. Institutional administrators may not be using this early period efficiently to learn to relate effectively to the foundation's board. Because of funding issues and the institution's reluctance to delegate, the foundation's administrative functions generally are assigned to institutional personnel. Further, the chief staff officer of the foundation often serves concurrently as an officer of the institution. While the foundation's volunteer board may assist with the institution's fund-raising program, the institution generally manages the foundation's programs and assets.

As the foundation's assets grow, either the foundation's board or the institution begins to move the foundation toward greater fiscal and administrative autonomy. Quite often, budget challenges in the institution prompt this phase in the foundation's development. If resources are available, the foundation board may independently hire and compensate a staff officer and possibly one or two part-time staff members. This period in the foundation's development correlates to a tumultuous adolescence, in that the foundation begins to deal with its independent identity. As is true of parents, the institution's administration may encourage the foundation's autonomy, but at the same time become somewhat uneasy with its loss of control.

One catalyst for the maturation stage of the relationship may be the planning of a significant fund-raising endeavor, such as a capital campaign. For a capital campaign to be successful, the institution and the foundation need a clear delineation of their respective responsibilities. Relationships between personnel of the institution and the foundation must be clarified and lines of responsibility and authority between the two organizations must be defined clearly. Equally important, the president of the institution must understand and be comfortable with the relationships with the foundation's volunteer board and senior staff. During each evolutionary stage, the relationship between foundation and institution must be evaluated continually. The vitality and quality of the relationship are measured by the nature of responses to the following four questions:

1. In terms of its mission and direction, has the institution clearly envisioned and defined the role that the foundation is to assume in the planning and administration of the institution's fund-raising and asset management programs? (See Chapter 2.)
2. Has the institution determined how much influence and control it wishes to exercise over the governance of the foundation and the management of its daily affairs?
3. Have senior administrators of the institution reached consensus regarding the integration of the foundation and its volunteer board into the infrastructure of the institution?
4. Has the institution made a full commitment to the foundation and its success?

Institution Mission and Foundation Mission

The institution is responsible for articulating periodically to the foundation board its vision for the institution and that vision's probable impact on the foundation's mission and role. Beyond this broad vision statement, the institution also must define how the operations of the foundation are germane to the institution's daily affairs. The foundation's mission statement must be totally compatible with the institution's purpose and direction. Responsibility for developing the foundation mission statement rests with the foundation's volunteer board. The foundation's directors, however, may not understand completely the complexities and intricacies associated with a large public institution. Because an independent foundation is created solely to provide service to the institution, that institution has an implicit responsibility to define the service it requires. Before the foundation's board can act intelligently on a mission or be effective in governing a foundation, the institution must assign and grant specific tasks and responsibilities to the foundation.

The Question of Influence and Control

If the foundation's assignment encompasses the administration of some or all of the institution's fund-raising programs and the responsibility to manage financial resources, the question of control usually arises. Administrators at public institutions ordinarily are uncomfortable with highly decentralized management structures; the independent foundation is probably one of the purest forms of decentralization in higher education. Many administrators are haunted by a lack of control coupled with a contradicting sense of some level of ultimate responsibility. Officers of a public institution customarily are held accountable to the highest standards by its faculty and students, state government, and the public. While strict accountability is necessary, it can create an environment that discourages administrators from delegating or assigning responsibilities to others. While the institution may wish to delegate responsibility to a foundation, it concurrently may wish to retain a significant amount of control. This paradox is inconsistent with the concept of independence.

During periods of leadership transition or changes in institutional direction, the college or university may wish to modify the foundation's mission or redefine the institution's participation in foundation management or governance. Key to a successful relationship is that foundation boards and staff officers understand that the president of the institution has the same rights and privileges with respect to the role and mission of the foundation as with the host institution. If the president foresees a need for policy or program shifts in the foundation, the foundation's volunteer board should be informed early and be involved actively in the transition process.

The freedom of the foundation to pursue its mission and role and the degree of control the institution chooses to maintain or surrender are the bases for formal operating agreements between the two entities. Because no two institutions are the same, no standard formula for such an agreement exists. As a starting point in structuring such an agreement, however, attention should be directed to the foundation's most important asset: its volunteer board of directors. A foundation board usually consists of intelligent individuals who are highly motivated and have a strong, honest desire to serve the institution. Moreover, board members are successful, influential individuals who seek responsibilities commensurate with their experience, abilities, and status. These individuals are the *sine qua non* of any successful fund-raising program; to entice them to serve, an institution should offer opportunities for meaningful service. To support such offers, the institution should challenge the foundation and should be prepared to delegate an appropriate degree of responsibility and control. While the foundation's board should seek guidance and leadership from the institution on various long-range planning and policy matters, the enthusiasm of directors may wane if they are not given the freedom to make decisions in the context of a meaningful role.

Administrative Consensus and Commitment

At many institutions, senior administrators may disagree on the independent foundation's role and its integration into the daily affairs of the institution. A lack of consensus and commitment to the foundation by institutional entities can jeopardize a foundation's ability to serve the host institution effectively. If the foundation is not embraced as part of the institutional culture, adversarial relationships can develop between the respective staffs and the overall effectiveness of the foundation will be compromised. More important, the foundation's volunteer board may view the lack of commitment by individual administrators as an lack of commitment by the institution.

By accepting the challenges and the accompanying freedom to operate somewhat independently of the institution, the foundation makes a corresponding commitment to a single purpose: to provide quality services to its only client, the institution. A foundation's sole rationale for existence is that the services it provides—whether related to fund-raising, fund management, or other assigned tasks—are performed more efficiently and more professionally than if the institution were to use its own personnel and resources. If the foundation is unable to provide that high-quality service, the institution should consider retaining direct supervisory control of the foundation, limiting its assigned functions, or doing without it.

Institutional Commitment

The final area that the institution must evaluate is the level of commitment it has made to the foundation's success. Too often, college and university administrators view the independence of the foundation as an excuse for avoiding commitments, financial and otherwise. The influential and powerful individuals who serve on a foundation's board typically are volunteering and investing time, energy, and money to the institution's future. In return, they need to see that the institution is making a corresponding commitment commensurate with their collective efforts. One important commitment is the institution's financial support of the foundation. Few institutionally related foundations across the country are financially self-sufficient. Most rely on the host institution for total or partial budget support. Whether an institution decides to manage its development program internally or through an independent foundation, it has the ultimate responsibility of providing some appropriate level of funding for its fund-raising program.

The Written Agreement

In the business world, companies routinely reach mutual agreements. These agreements may be oral, but generally they are more effective when written in sufficient detail to define all important aspects of a particular relationship or transaction. Carefully worded agreements ensure that the respective parties truly have reached mutual understanding. Additionally, if a dispute arises after an agreement is executed, the document should provide guidance for its resolution. Since a foundation is an independent corporation, separate and distinct from the institution, strong consideration should be given to defining the mutual relationship through a formal, written operating agreement. The growing trend nationwide is for an institution and a foundation to define a relationship in a comprehensive document. In fact, in many states, written agreements between public institutions and related foundations are mandated by statute. Moreover, the volunteer members of the foundation's board, generally from the business community, appreciate a businesslike approach to defining the relationship with the institution. A well-written agreement provides an excellent means for the institution to demonstrate its commitment to the foundation.

Because of differences in institutional philosophy, the various roles foundations assume from one institution to the next, and the regulatory and statutory differences among states, a simple generic agreement is not practical. Rather, the goal here is to present information that institutions should consider in defining a relationship with a foundation and in developing a comprehensive written agreement.

The following is designed to stimulate meaningful and productive discussions among the various constituencies of the institution and foundation. While the written agreement may be a significant landmark, its real strength lies in the consensus required to produce it. Without consensus, the agreement is a worthless document, and the foundation—and ultimately the institution's fund-raising efforts—may not succeed. With unanimity among its administrators, the institution can take a giant step forward toward cementing an excellent relationship with its foundation volunteers.

Several institutions and foundations representing many types, sizes, and complexities agreed to provide copies of their respective operating agreements. A few institutions responded that no written agreement existed between the two entities at the time of the request. However, institutions with relatively large and complex foundations generally had comprehensive agreements in place. Many smaller institutions did as well, but some of the agreements submitted were limited in scope and did not define all aspects of the relationship. The following outline is drawn from the array of agreements provided. It identifies specific topics or issues that may be considered in drafting a comprehensive agreement; these are described further in the following sections of this chapter.

Components of Sample Written Agreements

A. Participation of the institution in the foundation's governance and management
    1. The president
    2. Other institutional officers
    3. Representatives from the institution's governing board, faculty, and students
B. Use of the institution's name, acronyms, and symbols by the foundation
C. Termination of the foundation
D. Foundation's management of unrestricted funds
E. Funding the foundation
F. Use of institutional personnel and facilities
G. Access to foundation records by institutional personnel
H. Funds administration
    1. Transfer of funds between the institution and the foundation
    2. Management of endowment funds
    3. Presidential discretionary funds
    4. Salary supplements to institutional employees
    5. Acceptance of restricted gifts by the foundation
    6. Disbursement of funds by the foundation
I. Foundation audit

J. Reporting to the institution
K. Coordination of fund-raising
L. Coordination with the institution's fiscal office

A. Participation of the institution in the foundation's governance and management

Despite the value of a foundation's independence, an institution may wish to maintain some degree of control over foundation staff and operations. (On some campuses, control and oversight may not be preferred terminology. Other more acceptable terms might include liaison or coordination.) Because of differences in philosophy and the regulatory environment, the appropriate degree of oversight differs among institutions. The general public may assume that the institutionally related foundation is a branch or division of the institution. Allowing the foundation to use the institution's name and logo contributes to the blurred distinction between the two organizations. Consequently, the institution has—if nothing else—a public-relations reason for influencing the affairs of the foundation directly.

During a foundation's early years, this common identification may pose no problem. The institution may staff the foundation with its own personnel and appoint an institutional officer as the chief foundation officer. The institution also may insist that key administrators fill certain leadership positions on the foundation's board. This approach helps ensure that the institution fulfills its oversight responsibility; many institutions continue to follow this approach quite successfully even with mature foundations. The political climate of a state, an institution's culture and management philosophy, and the history between an institution and a foundation often dictate the level of independence an institution will delegate to volunteers and independent staff. The chief advancement officer of the institution, for example, may be reluctant to release day-to-day control of certain development activities if, under the institution's bylaws, this officer has ultimate responsibility for fund-raising. The institution's chief financial officer may have the same feelings about certain fiscal responsibilities. While this "close-to-the-vest" approach is not uncommon, it raises questions of foundation independence, dual reporting responsibilities for staff, and foundation board prerogatives in setting policy. In preference to a total control approach, institutions may exercise a reasonable degree of influence or control over the foundation, but allow it to retain its independent nature.

The President. The president's role is paramount to an effective institution-foundation relationship. It must be defined clearly. At most foundations, the president of the institution is an *ex officio* member of the board of directors and plays an important role in nurturing the relationship between the two organizations. While the president may not have voting rights on the foundation board, volunteers will respect the president's position on most matters and will look to him or her for leadership. The president's membership on the foundation board usually is included in the foundation bylaws, but also may be reflected in the agreement.

The relationship between the president of the institution and the foundation's chief executive officer is the benchmark for determining the level of institutional control over the foundation. While the foundation's chief staff officer may report directly to the foundation board, this individual remains subordinate to the president of the institution. Foundation executive officers need to appreciate this distinction.

Other Institutional Officers. Provision may be made for a limited number of other institutional officers to serve in *ex officio* capacity on the foundation. Such inclusions improve coordination and ensure a proper flow of information among constituencies. Before administrators are placed on the foundation board, however, the purpose of the board should be defined. If the foundation is to be a vehicle for encouraging community leaders and influential alumni to serve the institution and lead its fund-raising programs, a preponderance of institutional personnel sitting on the board may impede this goal. If that's the case, careful consideration should be given to this strategy ahead of placing administrators on the board.

Alternatively, one effective way of ensuring coordination is to assign key administrators to various foundation board committees in either voting or nonvoting capacities. This idea has merit for at least two reasons: First, volunteers need and welcome guidance from the administration on various matters, and second, since most of the board's work should be carried out at the committee level, institutional administrators can participate effectively without appearing to subvert the volunteers.

Representatives from the Trustees of the Institution, Faculty, and Students. Some institutions may wish to place a representative from the institution's governing board, faculty, or students on the foundation's board. This practice is an excellent vehicle for ensuring good communications among all segments of the institution. If, however, the primary mission of the foundation is fund-raising, each member of the foundation's board still should have an individual responsibility for fund-raising. This rule should apply to these individuals as well. The only possible exceptions are members who have been recruited for their experience in investments, real estate, and other areas requiring specialized expertise.

The board is responsible for overseeing the management of financial assets. Up to a point in the foundation's financial history, it will be unable to retain a qualified individual to manage assets daily. Nevertheless, the foundation has a fiduciary responsibility to manage its assets in the best interest of the donors and the institution. Individual foundation directors, as volunteers, should avoid assuming responsibility for the direct investment and management of funds. In situations where the foundation is unable to retain a qualified individual to manage its financial assets, the foundation's board and the institution should consider designating the institution's chief financial officer (CFO) as the treasurer or CFO of the foundation.

B. Use of the institution's name, acronyms, and symbols by the foundation

The institution may permit the foundation to use the institution's name and logo in its fund-raising and public relations activities.

C. Termination of the foundation

Consistent with provisions appearing in the foundation's bylaws and its articles of incorporation (see Chapter 4), consideration should be given to outlining the procedures to follow if the foundation ceases to exist, if it ceases to be tax exempt or a public charity as defined in the Internal Revenue Code, or if the operating agreement is terminated between the institution and the foundation. The institutional concern here is the disposition of the foundation's assets. Many institutions require that the assets of the foundation be transferred to the institution upon the materialization of any of the above conditions. However, whenever restricted assets are transferred, the intent of the donors must continue to be honored.

D. Foundation's management of unrestricted funds

As part of its fund-raising program, the foundation may receive unrestricted donations. The use and distribution of such funds provides a unique challenge to the relationship with the host institution. Foundation boards may feel a sense of ownership toward realized unrestricted funds. If so, boards may attempt to retain and use these funds solely for foundation purposes without institutional approval or may attempt to influence the institution's allocation of these funds.

The role of the foundation board is to raise and manage funds for the institution. The institution's responsibilities are to develop funding priorities and allocate unrestricted funds among academic and other programs. In addition, the institution and the foundation's board should determine annually the percentage of unrestricted funds that may be used to underwrite the operations of the foundation (see Chapter 9). Foundation boards should resist the temptation to allocate unrestricted funds directly or influence their allocation indirectly.

E. Funding the Foundation

Funding the foundation's operations is probably the most important aspect of the relationship agreement between the two organizations. Factors such as the mission of the foundation, the foundation's financial independence from the institution, and the institution's expectations must be considered in developing a funding strategy. Unless the foundation has an extraordinary source of unrestricted income, its primary sources of externally generated revenue are donations and investments (see Chapter 9). Revenue sources traditionally available to fund a foundation usually are insufficient to support a fully staffed fund-raising and assets management office. The foundation generally requires support originating with institutional resources. If state law permits, the institution may help the foundation by providing free space, utilities, and other services, or it may contract with the foundation for the services it provides. Even if the foundation does not need to rely on a contractual arrangement with the institution, the funding strategy it adopts usually will affect the amount of unrestricted revenue it provides to the institution. Consequently, the foundation's funding strategy should be an integral part of the agreement.

A common but ill advised practice among institutions establishing serious development programs for the first time, especially through the creation of independent foundations, is to launch the program on a shoestring. Quite often, the institution funds all or part of the foundation's operating budget for a limited period and challenges the foundation to become financially self-sufficient within a few years. Because of budget priorities, institutions may be unable to commit to funding a development program commensurate with expectations. The absence of the institution's financial commitment places an unnecessary burden on the volunteer foundation board and ultimately may adversely affect the relationship between the two organizations.

F. Use of institutional personnel and facilities

Traditionally, the foundation's office is on campus, and the institution provides utilities and services to the foundation similar to those provided to other departments. On many campuses, institutional personnel are used to staff the foundation. To preserve the foundation's independent nature, an arms-length relationship should exist between the foundation and the institution regarding the services the institution provides. Consequently, the foundation either should pay cash for the services provided or recognize these services as payment-in-kind.

G. Access to foundation records by institution personnel

At many institutions, the president or an institution designee is given access to foundation records for audit or other purposes. Regardless of the context in which the independence of the foundation is defined, the written agreement should establish a protocol for institutional administrators to gain access to these foundation records. A good policy for the foundation is to allow the institution to have full access to its records provided the protocols are followed.

H. Funds administration

Too often, mistrust, suspicion, and a general lack of confidence prevail among state auditors and institution CFOs regarding the foundation's role in an institution's fiscal matters. The genesis of the suspicion stems from a perceived lack of control and the state auditor's inability to audit an independent foundation. Many state auditors, state legislators, and media personnel strongly feel that the books of the foundation should be subject to the same degree of public scrutiny as the institution's. Without debating the issue here, the importance of establishing good fiscal policies and procedures in the foundation and of developing a sound working relationship between both organizations with respect to financial matters cannot be overstated. To avoid unnecessary and unwelcome media or state auditor attention, the written agreement should outline in some detail the financial relationship between the two organizations.

Institutional financial policies and procedures differ from state to state: Allowable procedures in one state might be strictly forbidden in another. In any event, the following topics should be considered in defining the financial relationship between the institution and the foundation.

Transfer of Funds. The foundation may be designated as the sole depository of private gifts or private gifts may be deposited either at the institution or the foundation. At institutions where donations may be deposited with either, the donor usually determines where a donation is to be deposited by designating the payee on the check. In states where dual depositories are required, a procedure should be established to transfer funds from the institution to the foundation and vice versa. For instance, if a donor contributes to an endowment fund established at the foundation but makes the check payable to the institution, the institution must be able to transfer these funds to the foundation.

Most states have strict and sometimes confusing guidelines for the deposit of funds into state accounts. Attention should be given to developing gift acceptance policies and procedures that allow donors to contribute without having to understand complex deposit regulations. Requesting donors to rewrite checks to change the payee designation may provide a short-term solution to this problem, but such a procedure should not be considered a matter of policy.

Management of Endowment Funds. Management of newly established endowment funds usually is assigned to the foundation, but typically the two organizations manage funds with separate investment portfolios. Historically, endowment funds were given to the institution before the foundation was established; in many states, the management and control of the earlier funds must remain with the institution. As an institution begins to build its development program in earnest, it should consider as one of its goals consolidating management of endowment funds within the foundation, if legally permissible. Consolidation provides for a larger pool of funds for investment purposes, guarantees consistent management practices, simplifies gift acceptance, and significantly streamlines the stewardship efforts of the development program with donors and their families. Obviously, however, many factors need to be considered to achieve this.

Presidential Discretionary Funds. A common practice is for the institution and the foundation to designate a portion of unrestricted donations for a discretionary fund for the president of the institution. Such funds often are the basis for unwanted news media attention, especially when such funds originate with independent foundations (see Chapter 13). At a minimum, consider developing a special protocol for the use of these funds, including a use approval process. If disbursements are made directly from the foundation for the president's benefit, the foundation's board has the ultimate responsibility for determining the appropriateness of any expenditure. While foundations may be deemed to be independent of the institution and the records of the foundation may not be available to the press and state auditors, foundation boards should exercise extreme caution in approving discretionary expenditures.

Salary Supplements to Institutional Employees. At times, the foundation may be asked to provide a salary supplement to the president or other employees of the institution. Extreme caution should be used in this regard, and foundation boards should discourage these requests. Salary supplements routinely pique the curiosity and interest of the news media and may cause an unnecessary public-relations problem for the foundation. If the foundation board satisfies itself with the legality and appropriateness of a salary supplement request, at a minimum it should insist that the governing board of the institution approve the request. A better approach is to transfer funds to the institution and allow the institution to make payment. This procedure avoids cumbersome reporting and recordkeeping for federal tax purposes. If the foundation does make a salary supplement payment directly to an employee of the institution, it should withhold the same federal and state payroll-related taxes as it does for its own employees.

Acceptance of Restricted Gifts. The foundation typically receives gifts to benefit the institution that are restricted to a special program, project, scholarship, or other interest of the donor. Often, these restrictions are quite burdensome. A process should be established to ensure that the proper official of the institution approves any restrictions on a potential gift *before* such gifts are accepted by the foundation.

Disbursement of Funds. Many institutions assign foundations the authority to make disbursements directly to vendors for supplies, services, and equipment at the request of institution faculty members and administrators. The institution should exercise a degree of caution in this area. Many times, foundations are perceived by institutional employees as a means to circumvent state or institution procurement policies and procedures. This attitude may invite the unnecessary interest of news media and state auditors. If the foundation is assigned such a function, it should develop a policy and procedures manual and distribute it widely to faculty and administrators. In it, the foundation should make clear that it is responsible for ensuring that all disbursements it makes on behalf of the institution (1) are reasonable business expenses that support the institution, (2) are consistent with the intent of the respective donor if restrictions apply, and (3) do not conflict with any federal, state, or local laws.

While the foundation's board of directors is responsible for adopting disbursement policies for the foundation, the institution is responsible for supervising its employees. Consequently, the institution also should develop and publish guidelines for proper use of the foundation's fiscal services. Further, it should provide the foundation with a list of individuals authorized to approve disbursement requests. For each disbursement, the institution's final approving authority should document the business nature of the expenditure and its compliance with applicable state and institutional regulations. In the absence of such a system, the foundation's board should prohibit processing institutional disbursements.

I. Foundation audit

At the conclusion of each fiscal year, an independent auditing firm should perform a complete audit of the foundation's financial records. A copy of the audited financial statements and other management reports prepared by the auditor should be presented to the institution after they have been accepted by the foundation board of directors (see Chapters 15 and 16).

J. Reporting to the institution

An important responsibility of the foundation is to report to the institution on its business plan results, its corresponding financial activities, and a summary of gifts. It should prepare these reports annually, at minimum. The institution may require a comprehensive report outlining all foundation fund-raising programs, with a comparison to and analysis of the institution's overall fund-raising goals and objectives.

K. Coordination of fund-raising

At many institutions, typical fund-raising functions are divided between the institution's development office and foundation staff. Coordinating these functions is a unique challenge, especially when the foundation is not managed directly by institutional staff. For any fund-raising effort to be successful, the efforts of each person and group need to be coordinated thoroughly. The institution's development staff and the foundation staff need to approach prospective donors with unanimity and solidarity.

In any situation where an independent foundation is responsible for managing in whole or in part an institution's fund-raising program, the overall fund-raising priorities should be set by the institution (see Chapter 15). After quantifying the priorities, the institution is responsible for articulating them to the foundation's directors at the beginning of a special campaign or at the beginning of each fiscal year. The foundation's board should review the institution's requests carefully and determine if it has the capability and sufficient resources to pursue the institution's needs. This process results in well-defined goals and reasonable expectations—two important ingredients for a successful relationship. The institutional president and staff should work closely with the foundation to monitor its efforts and ensure that the institution's needs are being addressed.

In addition to the aforementioned tasks, the institution and foundation should define in the agreement their respective stewardship responsibilities. The heart of any fund-raising program is an institution's ability to service its donors. When development responsibilities are split between two organizations, effective donor stewardship can become problematic.

L. Coordination with the institution's business office

The character of the relationship between a foundation and the financial administration of an institution is a good barometer for the overall strength of the relationship between the two organizations. Every foundation executive officer or financial officer should be committed to developing and sustaining a good working relationship with the institution's CFO and financial staff. At some institutions, this goal may be elusive because many institutional CFOs view independent foundations with suspicion and silent contempt or simply tolerate the foundation's existence. Several factors contribute to this distrust. Unless the CFO is an officer of the foundation or the foundation is staffed with personnel from the institution, the institution's CFO has virtually no control over the foundation's fiscal affairs. At some institutions, the lack of responsibility may be welcomed; however, many CFOs feel that despite their lack of authority and control, they have an inherent responsibility for the overall fiscal well-being of the institution, including the foundation.

Further, when state auditors raise issues or questions about the peculiarities of a foundation, they often are directed at the CFO of the institution. The CFO is accountable to the state auditor, but the independent foundation may not be accountable to either the CFO or the state auditor. Understanding the CFO's sensitivity to these and many other challenges associated with an independent foundation will help foundation executives and CFOs appreciate the importance of a cooperative, mutually supportive relationship.

Endowment management raises additional questions. One benefit of an independent foundation is that the administration of endowment funds is a high priority. Its financial staff generally has a comprehensive understanding of the importance of donor stewardship. At the institution level, the administration of endowments often is considered a low-priority task, and endowment funds often are not managed with the same degree of attention and concern as are others. This observation is not intended to be a criticism; it simply reflects one of the usual and customary priorities. To effectively manage endowment funds, each foundation should develop policies for investment, endowment spending, and fees it levies on individual endowment funds to recover costs. Many investment firms specialize in helping organizations develop investment and endowment spending policies. As with any policy the foundation adopts, the board of directors has the ultimate approval responsibility. All such policies should be reviewed and coordinated with the appropriate offices at the institution. Coordination of endowment policies and procedures with the institution's financial staff will promote good relations. The foundation also should consider coordinating endowment policies with the academic leadership because the academic units are the primary beneficiaries of most of the foundation-managed endowment funds. Endowment policies should be as consistent and compatible as possible between the two organizations.

Summary

The relationship between a public institution and its independent foundation is unique. It entails many special considerations. As is true of any important relationship, the foundation and the institution have a responsibility for its success. Foundations cannot operate within an aura of total independence and must rely on the host institution for guidance and leadership. Institutions must provide effective leadership; foundations must provide quality services with full accountability to donors, the host institution, and the public at large. The uniqueness of the institution's relationship with an independent foundation, combined with the pervasive negative attitude toward institutionally related foundations that exists in many states, requires that these relationships be developed thoughtfully and nurtured carefully. A comprehensive written agreement is a good first step toward ensuring an ongoing productive relationship. ■

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CHAPTER 11

The Community College Foundation

Barbara J. Keener

Community college foundations are young and restless. The last two decades have witnessed a rapid growth of community college enrollments. This phenomenon, combined with declining government resources, is spurring interest among many community colleges in increasing private fund-raising efforts. Private fund-raising, with the foundation as the vehicle, has become of paramount importance to the survival and enhancement of the American community college. David Pierce, president and chief executive officer of the American Association of Community Colleges (AACC), notes that the earliest related foundations were formed to own real estate (often the property on which the community college was built) or to run enterprises (such as dormitories) that neither were state mandated nor state funded. In the mid-1980s, only a handful of community college foundations reported raising $1 million or more.[1] Of the more than 1,000 community colleges in AACC, fewer than half had foundations. Today, with a similar number of members, AACC and an affiliate council, the National Council for Resource Development (NCRD), report that foundations operate at almost two-thirds of the member colleges.[2] According to a 1994 membership report published by the Council for the Advancement and Support of Education, 150 of these colleges have assets in excess of $1 million.

This chapter examines some of the factors inherent in community college foundations, including institutional advancement, foundation operations, and successful fund-raising techniques.

Institutional Advancement Functions

Evidence abounds that most college fund-raising efforts work best when grounded in the institution's plan and framework.[3] Much of the conventional wisdom regarding fund-raising success revolves around the emphasis on and the integration of institutional advancement into the college mission. Too often, according to David Daniel, former AACC chair, fund-raising is treated as a separate activity with little connection to the college's objectives and long-range goals.

Before a community college establishes a foundation, basic questions need to be addressed. If the college already has a foundation, the basic questions that follow also can help guide the institution in light of future foundation operations and restructuring. The questions also can guide discussions among institution governing boards, foundation directors, advancement office personnel, and management teams.

1. Is the institution committed to advancement?

Questions to guide the discussion:

- Does the college have a chief advancement officer?
- Does the officer report to the president?
- Is the officer a member of the college's executive policy-making group?
- Are advancement objectives clearly stated in writing?
- Do the advancement objectives support the college's mission statement?
- Are the financial commitments included in the college's operating budget?

2. Is the president committed to institutional advancement?

Questions to guide the discussion:

- Has the president committed at least 10 percent of his or her professional time to fund-raising activities?
- Is the president prepared to cultivate community sources for fund-raising?

- Will the president serve as a champion for institutional advancement, internally and externally?

3. Do the trustees active support institutional advancement?
Questions to guide the discussion:

- Do the trustees uphold the mission statement as it relates to institutional advancement?
- Do trustees take an active role in the development of fund-raising committees and in other advancement efforts?
- Are trustees involved in specific fund-raising activities, including donor cultivation?
- Do trustees closely align themselves with the college leadership in an effort to promote institutional advancement as reflected by budget priorities and positive institutional policies on fund-raising?

Numerous peripheral questions constantly need to be raised regarding a college's advancement functions and future; institutional advancement functions must be evaluated on an ongoing basis. Functions must be customized and assessed on a continual, scheduled basis. As college leadership and community composition change, so too should advancement procedures. Once a dynamic, effective institutional advancement effort is in place and operational, the development and structuring of a foundation can take center stage.

Foundation Operations

Many organizations have developed excellent basic resource materials for community college foundations, including the NCRD and the American Association of Community College Trustees, which created a training academy for community college foundation boards and related college representatives. This section draws on some of the materials from the training academy to highlight key issues and considerations related to community-college foundation operations.

Recommendations for Establishing a Foundation

1. Use a consultant at the outset for authoritative advice to help you avoid pitfalls.
2. Obtain legal advice from an attorney who specializes in higher education as you prepare your foundation charter.

3. Gain the support, involvement, and explicit commitment of the college trustees, president, and other college personnel.
4. Investigate other successful institutionally related foundations.
5. Form an understandable, long-term mission statement.
6. Commit adequate resources (budget, liaison, staff, and support time) as an up-front college investment in the foundation.
7. Follow Internal Revenue Service requirements meticulously.
8. Separate the college board of trustees from the foundation board of directors and make sure each understands their distinctive roles.
9. Make sure the college president is involved directly at every stage.
10. Provide for the rotation of board members.
11. Employ a qualified executive director.
12. Establish a good database and accounting system.
13. Be patient, slow, and cautious—don't try to move too hastily. Lay a firm base for success with all constituencies.
14. Keep board size to a workable number (30 should be the maximum).
15. Select members of the board of directors carefully. They should be influential, respected, committed, capable of giving generously, knowledgeable, enthusiastic, and broadly representative of the community and its resources.
16. Make it clear that foundation directors will be the fund-raisers. College staff should have a lower profile in fund-raising.
17. Establish priorities for appealing and actual needs for external funds, emphasizing specific goals and service to people.
18. Develop a master fund-raising plan.
19. Look within the college for help and support and involve all sectors of the campus community.
20. Establish long-term goals and short-term objectives in conjunction with board members.
21. Set donor goals high; don't let budget limitations restrict programming potential.
22. Involve the business sector of the community.
23. Obtain significant kick-off gifts and publicize them.
24. Start with small, successful projects to build confidence.
25. Employ successful public-relations and marketing techniques; let people know the foundation exists and is accomplishing significant tasks.

Basic Documents

The academy's notebook also outlines the four fundamental documents required for foundation creation and incorporation:

- *Corporate charter.* This instrument legally charters the foundation. It should follow the format required by the secretary of state in the relevant state.
- *Bylaws.* The foundation's bylaws should be submitted to the secretary of state. The bylaws must conform to the requirements of a not-for-profit, tax-deductible, and tax-exempt organization (see Chapter 4).
- *IRS documents.* A letter of determination from the IRS will officially qualify the foundation for a section 501(c)(3) designation, and a federal employment identification number will be issued. Both are generated by an application form filed with the IRS (see Chapter 4).
- *Locally devised binding documents.* Community college foundations often form operating agreements between the college and the foundation specifying the responsibilities of each entity (see Chapter 10). This annual cooperative agreement should spell out the duties and obligations of each party and should protect the status of the foundation as an independent contractor.

Committee Structures

Foundation business generally is conducted by standing committees. Committee chairs are selected from the executive committee; each director is expected to serve on at least one standing committee. Florida's Broward Community College Foundation provides an effective model:

The *executive* committee consists of the foundation officers and may exercise all powers and authority of the board of directors when the board is not in session. It also is responsible for providing direction for the foundation's annual fund-raising efforts and identifying projects that will be undertaken during the year.

The *gift and investments* committee is responsible for developing an investment policy, supervising foundation investments, and reviewing the acceptance of gifts other than cash and securities. The investment policy is subject to annual review by this committee; revisions are approved by the board of directors (see Chapters 6 and 7).

The *funding priorities* committee is responsible for reviewing the allocation of private foundation resources to programs and projects recommended by the college. This committee reviews major allocations of funds outside the normal activities of the foundation, such as scholarships and minor equipment purchases, and makes recommendations to the board regarding these allocations.

The *planned gifts* committee is responsible for the foundation's planned giving efforts and for helping to facilitate such donations. This work includes developing plans for obtaining gift annuities, charitable remainder trusts, and other complex donations. This committee has a definite impact on the future fiscal stability of the foundation and its corresponding capacity to increase its usefulness to the college.

Ad hoc committees may be established at any time to meet on a one-time or recurring basis for limited-duration needs or annual projects. Members are appointed on the basis of interest, expertise, and experience.

Development Roles of Principal Parties

In August 1994, the College of Southern Idaho established its foundation using a series of guidelines for members of the foundation board that stipulate the following development roles of the college's governing board, foundation board, and president.

The *college governing board* authorizes the creation of the fund-raising arm (the foundation), authorizes the college president to maintain and facilitate effective and productive operation of the fund-raising arm, approves the foundation's long-range plans, ensures that adequate financial and personnel resources are available for resource development, and participates in marketing the college and its fund-raising efforts through the college foundation.

The *foundation directors* act as advisors to the president and the governing board, ambassadors to the community, "friend raisers" for the college, givers who invest personally in the college, and fund-raisers who attract gifts from private sources.

The *president* establishes a plan with realistic outcomes, ensures that the foundation board is composed of qualified men and women, builds a strong, positive relationship with development staff, builds a partnership with the foundation board, understands, appreciates, and promotes the development process, acts as the institution's primary advocate, helps enlist and motivate volunteers and solicits major donors, and attends most, if not all, major events involved with resource development.

Foundation Board Responsibilities

Washington's Green River Community College Foundation annually hosts a series of orientation activities for new and continuing foundation board members. The foundation uses a detailed outline in its ongoing effort to educate and re-educate board members; this outline is provided below and supplements some of the points made by the Idaho materials cited above.

As a whole, the board is responsible for participating actively in all regular board meetings, participating in foundation board training opportunities such as an annual retreat, NCRD/ACCT board academy, and NCRD regional and national meetings; serving on standing and ad hoc committees; and adopting a foundation activity or project and identifying with its success.

Individual board members are responsible for making a personal financial pledge to the foundation at the highest possible amount; learning about the college and the foundation, and understanding the college's mission, philosophy, and role; introducing key people to the college and foundation by hosting them at events (campus tours, breakfast and luncheon meetings, in-home dinners, college cultural or athletic events, breakfast with the college president, legislative trips, and corporate liaison meetings); identifying potential donors and participating in personal cultivation and solicitation; and assisting in fund-raising by serving on task forces dedicated to gift clubs, major gifts, planned gifts, year-end gifts, and corporate liaison.

In their study of higher education fund-raising programs, Duronro and Loessin reported that at the community college level, trustee participation and support are highly effective in institutional fund-raising and that this support is much higher than at other types of institutions.[4] Community colleges have the advantage of a locally based constituency, including board members, who often are personally familiar with the college's influence on its community. Community colleges must use this fundamental advantage throughout foundation development and growth, including carefully planned board membership selection, training, and involvement.

Successful Fund-Raising Techniques

Fund-raising success is relatively easy to measure. In fact, as academic departments struggle to identify outcome measures to evaluate student and institutional performance, the development office continues to have a single, simple yardstick for accountability: Was the fund-raising goal met within the specified time?

Individual community college goals will vary with community demographics, student population, and state educational structure. The following fund-raising techniques for community college foundations are offered with the caveat that adaptations and customizations will be necessary to accommodate each college's unique environment.

Technique 1: Know the Community College

Michael J. Worth notes that "successful fund-raising efforts capitalize on strengths and untapped potential of institutions in direct response to institutional needs and capabilities. The most important factor in making decisions about fund-raising programs may be insight into one's own institution."[5] Foundation plans and structures must evolve from the college's leadership and the institution's strategic plans. The foundation represents the college's endeavors and assumes initial responsibility for raising revenue to support these specific functions.

Technique 2: Concentrate on Preparation and Program Planning

A formal planning process and a thorough maintenance of time tables, budgets, deadlines, and solicitations are mandatory. New York State's Monroe Community College Foundation, Inc., identified 12 key components that should be examined when developing a strategic fund-raising plan. Together, these components provide the development officer with a blueprint for foundation board and staff activities related to raising funds. The 12 components follow:

1. *Funding needs.* What are the organization's short-term and long-term funding requirements? How should priorities be set in terms of urgency, appropriateness for foundation attention, and feasibility?
2. *Case statement.* What are the distinctive merits and needs of the institution and why do they require private sector support?
3. *Constituencies.* Who are the potential donors (constituencies and individuals)? What is their giving potential? What solicitation approaches will work best?
4. *Fund-raising methodology.* What are the most cost-effective and results-oriented approaches for solicitation?
5. *Use of consultants and volunteers.* Is outside expertise required to determine the feasibility of a given campaign? For training solicitors? Can the project be enhanced by the use of volunteers, and if so, how?

6. *Organization and leadership.* What specific roles and responsibilities are appropriate and feasible for the governing board, foundation staff, college administration, and volunteers?
7. *Donor and volunteer recognition.* What are the most appropriate and meaningful ways to acknowledge the contributions of donors, individual board members, and volunteers?
8. *Administration and procedures.* Are the existing database and procedures capable of efficient, accountable, and timely gift processing? Are upgrades needed? Does the current system allow for multidirectional communications and feedback? Does the process provide immediate gift acknowledgment to donors? Does it allow for different types of recognition and/or acknowledgment to be accorded for different levels of giving?
9. *Professional staff.* What types and numbers of professional staff are needed to meet fund-raising expectations?
10. *Fund-raising materials.* What nature and quality of printed materials will be required?
11. *Fund-raising budget.* How much money will need to be invested to meet the fund-raising goals? How can net proceeds be maximized?
12. *Evaluation.* To what extent were goals achieved in terms of dollars and intangible outcomes? What was learned? How can operations be improved? What skills and attributes were discovered by staff and volunteers?

Technique 3: Maintain an Adequate Staff

Community colleges tend to spread individual staff duties over several functions. The exception, rather than the rule, is for the foundation's chief staff officer to have no other college assignments. However, while no optimal staff formulas exist, research indicates that at least four professional and two clerical staff members probably should be employed for fund-raising in a college with enrollment of 2,000 or more. Selection and evaluation of these staff are integral steps for fund-raising success.

Technique 4: Incorporate Community Volunteers

Constituent relationships of every type (not just potential donors) are invaluable to a fund-raising effort. This seemingly simple statement cannot be overemphasized. To a large degree, the community college personifies its constituent network. Moreover, the college foundation's participation base is established firmly in the college staff, students, and community population. The foundation depends on each group to promote, sustain, and implement its fund-raising efforts.

Technique 5: Initiate and Sustain Planned Giving Programs

Planned giving initiatives have received increased attention from community colleges recently, and with good reason; they often are the source of generous gifts. Substantial bequests and other charitable donations to community colleges are increasing. The *Chronicle of Philanthropy* reports a $350,000 bequest from an individual estate to Florida's Valencia Community College. Harford Community College in Maryland announced an alumni gift of more than $1 million in late June 1995. Throughout the 1980s and early 1990s, community college publications were filled with articles addressing the tenets and practical steps for community college fund-raising. Apparently, this guidance paid off. Today, announcements regarding large gifts and trusts are prominently featured articles in every type of higher education publication. The foundation structure offers the community college additional capabilities to identify and promote these gifts.

Technique 6: Work with College Public-Relations, Marketing, and Human-Resources Offices

As vital as internal commitment and support are for the foundation's success, the external connections are key ingredients to fund-raising in the community. Foundation functions depend on market research, public-relations tools, and image positioning in the community. Johnson County Community College in Kansas received more than $1 million from a local couple who participated in a college senior citizen club. Although the college's foundation facilitated the bequest, it was the college's programs and *image* in the community that first brought the couple to the campus. College staff, trained in quality service, helped make the couple feel comfortable in the college setting. These campus-based offices can help development officers design and deliver effective recognition campaigns and donor acknowledgments. "Thanks yous" cannot be too frequent nor too abundant, unless a donor has requested anonymity. Even then, private appreciation can be offered. Publicizing gifts is also a means for reminding other potential donors of college needs and fund-raising success.

Summary

Community college foundations occupy a unique position in educational fund-raising. Unlike foundations serving large colleges and major universities, community college foundations are at the centers of their constituencies. Foundation boards and donor populations are located right in the neighborhood. Constituents live and work within sight of the campus. The college's programs affect local citizens on a daily basis. In a sense, the community college's constituency is captive. Community college foundations are poised to use this unique advantage when:

- a comprehensive fund-raising plan is followed,
- the college's mission and goals are well established and the foundation's objectives are integrated with them,
- special campaigns and planned giving programs are in place,
- the college's strengths and the foundation's performance are ongoing, and
- a well-funded and visible institution advancement office is operational.

Community college foundations must capitalize on the characteristics of their individual community. A sustained effort to meet the needs of this community will enhance the foundation and the community. The foundation's special insight into the community it serves—a direct result of its close relationship with the parent community college—is a major factor contributing to its success. ■

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[1] National Council for Resource Development, survey and study of membership, 1993.

[2] Ibid.

[3] Mitzel, David P., ed., *Resource Development in the Two-Year College*, National Council for Resource Development, Washington, D.C., 1988.

[4] Duronio, Margaret and Loessin, Bruce, *Effective Fund Raising in Higher Education*, Jossey-Bass, San Francisco, 1991, p.196.

[5] Worth, Michael J., ed., *Educational Fund-Raising: Principles and Practice*, Oryx Press, Phoenix, 1993, p. 48.

CHAPTER 12

The Foundation's Behavior as a Cornerstone of Trust

Gary A. Ransdell

Trust is intangible. It is hard to describe. It is not given away freely, and it's difficult to regain once lost. It is neither an entitlement nor a natural right. It is earned through avowed high purpose and exemplary action. And it has no greater public forum than the breadth of American philanthropy. Not-for-profit organizations began in America as public trusts. Colleges and universities, among other organizations, were exempted from taxation in a conscious effort to attract private support, thereby permitting the public sector to respond to crucial issues of the day. Donors were accorded certain tax advantages as well. Trust on both sides was explicit and implicit. The element that most distinguishes American higher education from European or Asian postsecondary models is captured in the tax implications prudently created generations ago by federal and state governments. The intent was and is to foster the public good by encouraging philanthropy.

Today that trust is eroding. Federal actions during the past several years suggest that enthusiasm for the concept of philanthropy is eroding as well. Recent controversies involving the use of private funds on campuses have contributed to the erosion. Public institutions and the foundations that serve them now are being forced to re-examine their methods and behavior. A more sophisticated and skeptical public is asking three things of the not-for-profit sector: value for gifts, assurance that contributions are being spent wisely, and disclosure of information confirming both. Some institutions continue to resist public pressure for disclosure of financial records and other information that may well be in the public interest. This resistance leads to speculation, uncertainty, and ultimately, loss of trust. A demonstrated willingness to communicate openly may be the only pathway for renewal and restoration of the trust on which philanthropy was built.

The Public-Private Partnership

Public higher education and private philanthropic support are linked on more than 1,000 campuses by independent, related foundations. Independent foundations enhance the intellectual environment of the public college campus by using the tax laws that encourage private philanthropy currently. These foundations play an increasingly important role in supporting higher education by providing the aura of confidence needed to facilitate a trustworthy partnership between public colleges and universities and private constituencies.

The weaving of public and private themes is found throughout these partnerships. Foundations associated with public higher education institutions are classified by the Internal Revenue Service as public charities. As such, tax-exempt foundations receive and manage money solely for the public institutions they are chartered to serve. Typically, these foundations are reasonably independent, non-profit organizations governed by boards of directors. The volunteers who serve on these boards are charged with managing and disbursing assets while applying policies that encourage the stability and growth of the foundation's resources.

Public college and university foundations also serve as the main repositories for private gifts; they usually are authorized to do so by policy of the institution's governing trustees. These foundations receive, manage, and distribute endowment gifts, deferred gifts, and special gifts—all aimed at building, maintaining, or otherwise facilitating outstanding academic programs by supporting public higher education's mandates for teaching, research, and public service.

The Protection of Advantages

The potential of the public-private partnership is fulfilled when the relationships among a foundation, an institution, and all respective constituents are solid (see the following section). Only then may the range of advantages that a foundation affords its host institution be realized. Such advantages increasingly are important to the college campus and must be preserved. They follow:

- Foundations adopt a long-term perspective on the needs and priorities of the campus;
- they operate in politically neutral environments that are less restrictive than those of the college or university;
- they make funds available to address urgent needs that typically cannot be met with state appropriations;
- they effectively maintain confidentiality of donor information, especially when anonymity is important to private benefactors;
- they maintain private fund accounts from one year to the next (in contrast to the fiscal-year-sensitive strictures imposed on the activity of public funds); and
- they provide a structure for important volunteer ownership in the combined enterprise of private gift solicitation and asset management.

Relationships

Solid internal and external foundation relationships are byproducts of clear and prudent ethical standards found throughout a foundation's operations. Good relationships also are enhanced when individuals throughout the foundation, the institution, and constituency groups understand why the foundation exists, why it is independent, and how it serves the institution. Productive relationships are not created through overt strategy. Productivity is enhanced through understanding and confidence and by well-conceived procedures and open communications. The earliest expression of confidence is the action by the host institution to permit its name to be attached to the foundation. In sharing the good name of the institution, the independent foundation never is fully free from its responsibility to act in the best interest of the college or university. Its documented mission is to serve and support the state institution with which it is identified.

Though a name is given freely and shared readily, the financial relationship between the two entities requires that care be taken in the corresponding sharing of resources. A cardinal rule in most states requires complete separation of private and public assets. Stateappropriated funds typically should never be put into the foundation. Courts have ruled sufficiently that when state and private funds are commingled, private funds become public and are subject to all state procurement and spending guidelines and to all freedom of information statutes. Foundation funds, however, generally can be transferred without compromise into institutional accounts at any time. Thus, private money can become public money at any time, but in most states, public money never can become private money. This point is critical to maintaining a proper and productive partnership with the institution and a good relationship with the state.

Trust

A foundation never should be used to circumvent public scrutiny. A foundation's greatest asset is public trust, an asset best protected by policies that ensure openness and accountability. However, the need for public scrutiny must be balanced with protection against the invasion of privacy. Foundations always must guard against the misuse of confidential personal information. The right of privacy generally is protected in most states, as is demonstrated by laws that offer protection against intrusiveness and the possible misuse of confidential personal information by creditors, banks, government agencies, the media, and others.

On the other hand, public scrutiny or the public's "right to know" also serves as a safeguard against the abuse or misuse of funds or information. The "higher public interest" can obviate the right of privacy, under certain conditions. Many states have clearly defined freedom of information laws that protect private personal information related to individuals who are pursued by or who contribute to a foundation. The cooperation of the state in this area is exemplified in South Carolina, where a freedom of information act exempts information relative to the identity of the maker of a gift to a public body, if (1) the donor specifies that the making of a gift must be anonymous, and (2) the donor (or member of the donor's immediate family) does not do business with the organization for three years before or after the gift is made. It also exempts information of a personal nature where the public disclosure thereof would constitute unreasonable invasion of personal privacy. Such language seldom is challenged during court litigation. Foundations, however, have been ruled by the court to be public bodies when state and private funds have been commingled or when foundations needlessly fight to protect information that might prove to be embarrassing to the foundation.

The prudent path for a college or university foundation, therefore, is to keep private resources apart and to protect private—but often essential—information about its donors, but not deny the public access to general operating and financial information simply because of the foundation's independence from the public institution and the state.

The Behavior Standard

Structures may vary, but all institutionally related foundations should share one primary standard: to serve the philanthropic interests of the institution without personal conflict of interest. Compliance can be ensured through the following:

- governance by a volunteer board staffed by either institution or foundation employees,
- the investment of funds by independent managers to prevent any personal gain by directors,
- carrying out a donor's wishes without any reciprocal special favors to the donor and without compromise to the institution, and
- working closely with the affiliated institution in developing foundation policies and procedures.

Elected Officials

One emerging theme quantifies legislative posturing with regard to private support of public higher education. The theme originates with the valid assumption that public institutions must operate in a manner acceptable to the public. It gathers momentum and volume as presidents of public institutions become mindful of the home state's political environment and realize—perhaps apprehensively—that foundations, perceived to be private, are concurrently affiliated with public institutions. Such assumptions shape the inherent political instincts of campus officials who understand that while public perception may not be reality, it often shapes legislation. Public perception drives elected officials. The perception of a void in accountability on the part of an institutionally related foundation offers any elected official a great pedestal for debate. Elected officials enjoy being quoted in the news media. The news media, in turn, thrive on controversy on the campus (the larger the institution the better) or in the legislature; the boldest headlines appear when a controversy exists between a public college or university and a legislative body, especially when money is involved.

The theme is simple: Elected state government officials increasingly are sensitive to elements of privacy in the public arena. And enough cases of apparent abuses related to public higher education foundations have emerged to cause many state legislatures to force the issue of accountability on state colleges and universities. Neither elected officials nor the public distinguish well between the institution and a foundation carrying the institution's name. In the state house, "private" often is viewed as synonymous with "nonaccountable." As long as foundations insist on absolute privacy, legislatures are invited to force accountability.

Most state legislators understand higher education and its need for private support. But in times of fiscal constraint, elected officials focus on the pockets where dollars either exist or exit. For foundations to protect the optimum use of private dollars in the institution, elected officials need to be educated by foundation boards and others about policies of related foundations, endowments, market investment flexibility, restricted versus unrestricted giving, and endowment income spending. Legislators also need to understand the huge gift figures and campaign numbers that the large institutions publicize liberally. Elected officials need to know why big gift headlines do not suggest the financial panacea to solve day-to-day campus budget problems. Institutions and foundations have a corresponding obligation not to tout campaign results that are as much vapor as veracity. And even when major gifts are real, legislators must understand the restricted nature of most capital gifts and the limited use of income from endowments. Such knowledge fosters understanding, cooperation, and public support.

Accountability

Because the basis for a foundation's tax-exempt status is predicated upon its mandate to serve and support the affiliated state institution, the foundation is exempted from behaving in any manner that could tarnish the name of the institution. When asked, foundation officials should be open and accountable. Better yet, they should be open and accountable without being asked. This policy applies *especially* when the news media ask questions. Elected officials read newspapers and watch television. They relish opportunities that permit them to take credit for "getting that problem squared away at State U." They know large institutions have large followings—and a host of critics. The legislature and the news media never should be made heroes at an institution's expense. The principle of being closed and private is not worth the expense of being forced to be open. A foundation that is open by policy or by voluntary action can control, to some extent, the information it releases. Once forced to be open, someone else takes control over what will be released.

Foundations should distribute information widely and often, including gift reports, endowment reports, investment performance summaries, and audit summaries. By disclosing such information, a foundation may find it easier to protect other information, such as names of anonymous donors, research profiles, and audit details. At the moment, the withholding of this kind of information is protected in many states by statute, but the future is uncertain at best. Occasionally an investigative reporter or an elected official will want to see more, perhaps a record of expenditures from a private account. A foundation is wise to release such information without delay or obfuscation. Problems should get on and off the front page in a hurry. And if even the hint of impropriety is an outcome of an inquiry, corrective and preventive action should be taken immediately by the foundation's board of directors to ensure that today's slightly unnerving story is not tomorrow's many-part series exposé worthy of a Pulitzer Prize.

Five Essential Objectives

The following five basic objectives should guide the behavior of an institutionally related foundation:

- *Pursuit of good news-media relations.* Good coverage (or the avoidance of negative coverage) is a valid objective, and nothing builds good news media relations better than openness and expedient, honest responsiveness. Conversely, nothing generates harsh news media coverage quicker than projecting the message that "it's none of your business." The foundation must work with the institution's media-relations program. The foundation must be part of the institution's strategy to anticipate the public's desire for information. It must respond expediently to requests from any source. However, foundation officials should not deal with the news media autonomously. Responses to inquiries and even positive, internally generated news stories should be coordinated with professionals in the campus news bureau or office of public relations. The foundation spokesperson should be identified clearly, and that person should coordinate and clear in advance any commentary with the news bureau and its official campus spokesperson.

- *Generate confidence.* Donors give because they are emotionally inclined to do so. They like what they are feeling, reading, and hearing about the institution and the foundation. Good donors generally understand the institution and its needs. Positive image, perception, and understanding all lead to donor confidence.
- *Spend all gift dollars wisely.* Foundations should spend unrestricted dollars in conformance with direction provided by the institution and publicize expenditures liberally. Restricted money must be spent as directed by the donor and agreed upon by the institution.
- *Please the deans.* Foundation staff should provide deans and academic units with all appropriate services, including donor research, gift reporting, volunteer training, and proposal preparation. Those highly respected leaders must be positioned to be the foundation's greatest advocates. Evidence of sound fiscal management, reliable accounting, consistent investment reporting, and regular audits will inspire confidence and advocacy. Faculty and deans may not agree always with a foundation's sound financial policies, but they certainly will prefer such policies over unsound ones or no policies at all.
- *Strive to avoid controversy.* A foundation always should try to avoid controversy and thereby spare itself the specter of tighter freedom of information legislation. By being open with information that harms no one, the foundation usually protects what needs to be kept private. Policy should be enacted to preserve privacy with regard to personal information about donors and prospects; meetings should be kept private when discussions center on donors, solicitation strategies, individual gifts, and investment strategies. Everything else can and should be quite public.

By honoring these essential objectives, a college or university foundation agrees to standards of behavior that inspire confidence and promulgate trust. By removing mystery and minimizing secrecy, the reasons of emotion, confidence, and understanding for which gifts are made are protected and nourished. Trust as a product of prudent action positions a foundation to fulfill its mission: to create and sustain a renewable, reliable flow of gifts to the benefit of the institution it serves. ■

CHAPTER 13

Autonomy and Independence: Lessons from the Courts

Marguerite M. Brown

Private voluntary support for North American institutions of higher education has risen steadily over the past three centuries, growing from initial funds solicited by three clergymen to support Harvard to today's substantial level of professional activity created by approximately 9,000 college and university fund-raisers in Canada and the United States.[1] As the importance and influence of private support in public higher education have expanded, so too have the structures that manage and invest these dollars. Over the past three decades, the number of institutionally related foundations at public and private colleges and universities has grown in direct proportion to the increasing importance of private support. This growth in number and in visibility, as documented in this and other publications, has not been without controversy, however.

Magnets for Attention

Institutionally related foundations play an increasingly important role in higher education. As they do so, they are confronted with numerous emerging challenges and issues surrounding their functioning. As a first step in responding to this situation, the

Association of Governing Boards of Universities and Colleges (AGB) and the Council for Advancement and Support of Education (CASE) developed a study to generate a comprehensive national database describing the characteristics of college and university foundations (see Appendix A). Of the 839 institutionally related foundation executives who received the survey, 726 (86.5 percent) responded. The survey posed 30 questions; 13 dealt in whole or in part with questions of autonomy and the nature of the relationships among the foundation, the institution, and the state. The legal issues discussed in this chapter are based on the analysis of these survey data.[2]

Many authorities, including Curt Simic, president of the Indiana University Foundation, cite the advantages of flexibility in procurement, expenditure, and investment of funds that these foundations offer. Still other champions of institutionally related foundations suggest that these entities, governed most often by an independent board of directors and operating as fund-raisers and money managers, can provide a margin of excellence and a measure of fiscal stability to their related institutions. However, the assumption that an institutionally related foundation is not subject to state disclosure laws and can protect the confidentiality of its donor records has been challenged. In recent court cases, institutionally related foundations have, in a show of assertiveness, pushed back with only mixed success. As Robert B. Rennebohm, former president of the University of Wisconsin Foundation, states, "We [institutionally related foundations] are not here to circumvent any laws but we are here to function the same as any other private business corporation without being hamstrung by cumbersome regulations often affecting large political bodies such as our institutions."[3] Herein lies the cause of controversy.

Court cases in Ohio, South Carolina, Michigan, West Virginia, and Indiana have set the stage for a mounting and important debate about just such issues raised by Rennebohm. The resulting decisions on the autonomy and independence of institutionally related foundations have ramifications that extend beyond public higher education to include private agencies related to other public fund-raising organizations in the United States. Yet these challenges in the legal arena, centered on questions of autonomy and independence, surprised few individuals who were intimately involved with the growth and development of institutionally related foundations. As early as 1991, an AGB survey of the chief staff officers of 28 college and university related foundations identified the definition and maintenance of autonomy vis-à-vis the state as the number one issue facing institutionally related foundations in the 1990s.[4]

Why are the number of challenges and questions regarding institutionally related foundations increasing so rapidly? Perhaps the best explanation can be found in an article dated almost a decade ago. Dorrit Cowan addresses the question of the autonomy of educational institutions in general, but his observations are equally germane to today's discussions regarding institutionally related foundations.

> We are in the midst of very dramatic, even explosive, changes... and the proponents of such changes have learned to use both legislative and judicial procedures to further their objectives...widespread reliance on government-financed assistance opened the door to the development of legal principles permitting the government to insist on institutional accountability and its right to participate to an increasing degree in the academic process.[5]

Cowan's concern about the inevitable expansion of government participation into the affairs of education seems appropriate to the issues surrounding the raising, management, and expenditure of private funds today. These challenges, however, have not come just from government sources. In 1992, for example, the *Greenville News* (South Carolina) won a Pulitzer Prize for its investigation of abuses at the University of South Carolina Foundation.[6]

Perhaps the most important questions for colleagues and practitioners in the field of fund-raising and institutionally related foundation management are these two: What can be learned from these court cases and how can foundations prepare for similar questions when they arise? This chapter focuses on case law in four states (West Virginia, Michigan, South Carolina, and Ohio) but others are worthy of review, as is the substance of the 1967 federal Freedom of Information Act (FOIA). Also deserving attention is the key court battle between the Indiana State Board of Accounts and the Indiana University Foundation, which has been described by some as "the latest flash point in the ongoing battle nationwide over donor privacy" and the "latest battle to keep the public's prying eyes from donor records."[7]

All of this information reinforces the notion that the legal trend in state court systems is toward treating institutionally related foundations as public bodies and toward applying state open-records laws to the records of these organizations. Institutionally related foundation executives rightly are concerned that few related foundations are or will be exempt from informal or formal attempts to exercise more public control over what one newspaper article labeled "the foundations of secrecy."[8]

The Nature of Challenges

The next sections highlight four key cases and the lessons they might hold. We present a brief summary of the challenges facing institutionally related foundations as evidenced by the cases. In West Virginia and Michigan, the state courts ruled that specific institutionally related foundations are not subject to state open-records laws. In contrast, decisions in South Carolina and Ohio have placed specific institutionally related foundations under scrutiny based on the courts' interpretation of state open-records laws. Perhaps most interesting is that a statistical analysis of data collected from institutionally related foundations in all four states indicates that no model profile exists that can suggest, in advance, how the courts will decide. The data indicate that institutionally related foundations in states where current case law ruled that specific institutionally related foundations were subject to disclosure laws are not different as a group from institutionally related foundations in states where the court rulings have indicated that specific institutionally related foundations are exempt from disclosure laws. However, by reviewing specific cases, some clues emerge as to what makes foundations susceptible to questions and disclosure laws.

The challenges to institutionally related foundations that end up in court usually begin with letters similar to the following:

> Dr. John Smith
> Vice President for Institutional Advancement
> Very Superior University
> 87 Ethical Lane
> Tranquillity, Minn.
>
> Dear Dr. Smith:
>
> I write you in my capacity as legal counsel for the Fair Treatment Press. I believe that my assistant told you I would be contacting you.
>
> This will confirm that Ms. Jane Brown has made a request to Very Superior University, specifically to the Development Office, that the Press be provided with a copy of any documents or with original documents containing the names of persons and entities who have been contacted as prospective donors to the Very Superior University Foundation. Ms. Brown made her request on Novem-

> ber 15, 1995, pursuant to the Public Records Act, R.C. § 140.47. We understand that you have denied that request.
>
> Separately, Ms. Brown has requested all documents identifying those people and entities who have made contributions to the Very Superior University Foundation, along with the donation amounts, respectively. Again, you have denied this request. As you know, the foundation is a public charity, and that charity must disclose this information to the Internal Revenue Service on a Form 990 in any event.
>
> Please regard this letter as a second formal request for all documents in the possession of the university in either of the outlined categories. This request is made in accordance with the State's open-records law which provides as follows: "All public records shall be promptly prepared and made available for inspection to any person at reasonable times during regular business hours."
>
> If it is your position that Ms. Brown is not entitled to obtain the requested documents, please inform us immediately as to your reasoning. We are not presently aware of any reason under the Public Records Act that would permit you to deny access to these records.
>
> We request access to these records by the end of the business day on January 31. Otherwise, we plan to file suit in the Court of Appeals immediately.
>
> Thank you for your prompt attention to this matter.
>
> Very truly yours,
>
> J.T. Green, Attorney at Law

A letter of this sort usually compels the university development official to seek outside guidance in resolving the demand for full disclosure of records the foundation considers to be private. This guidance might come from the institution's legal counsel or a higher education association, among other sources of accurate information.

The headlines that typically follow such letters and subsequent action, show this pattern and reflect the issues: "State's Investigation of PSU Foundation Grows" (*The Oregonian*, April 23, 1988) and "KSU foundation's records are ruled open to public" (*Lexington Herald-Leader*, June 26, 1992).

There the pattern ends.

Four Illustrative Cases

West Virginia

The 1989 case of *4-H Road Community Assn. v. West Virginia University Foundation,* 388 SE2d 308 (W. Va. 1989), is one of several principal cases between 1980 and 1992 that dealt with open-records challenges to institutionally related foundations. The case is best understood in the context of West Virginia's governance structure for public higher education, which has been described as "bumpy" at best.[9] In 1989, the same year as the West Virginia University Foundation case, the West Virginia Board of Regents (the state's higher education governing body) was subject to public, legislative, and expert scrutiny. A 1979 study of the board of regents' performance found it medicore and inadequate, especially in governance and budgeting roles.[10] The board was found to have "stressed control rather than management" and had "failed to establish and maintain positive relationships with various campus constituencies," resulting in an approach that "is not well-suited to the differentiated governance needs of the various institutions."[11] Despite these findings, the state legislature failed to implement any significant changes in the West Virginia higher education governance structure. This inaction created a leadership void: With a board of regents focusing on issues of control and internal administration, West Virginia's higher education policy issues were decided by the state legislature and courts.

In this context of long-term board ineffectiveness, the West Virginia University Foundation was challenged. The case actually began in circuit court in 1977 when the 4-H Road Community Association requested copies of documents pertaining to coal leases to which the foundation held legal title. (388 SE2d at 309). The president of the foundation denied the request, stating that the foundation "is a private, not-for-profit corporation created for the purpose of assisting West Virginia University, primarily through fund-raising, and is not a 'public body' subject to the disclosure provisions in the West Virginia FOIA" (388 SE2d at 309). The 4-H Road Community Association contended that the foundation was a public body because it was created or primarily funded by state authority. But the evidence filed on behalf of the foundation led the circuit court to rule that neither of these contentions applied, and therefore the foundation was not subject to the disclosure requirements of the West Virginia FOIA. (388 SE2d at 310).

The case has an interesting twist. When the circuit court delivered its opinion, it noted that the records originally requested by the community association were actually in the possession of West Virginia University and as such were in fact and in law public records. Clearly, the association could have access to the leases it had requested. The association, however, appealed the court's decision, contending that it had erred in concluding that the foundation was not a public body. The 1989 case under discussion is a result of that appeal. At issue were not specific records, but rather the determination of the foundation as a public body.

Perhaps no other case involving an institutionally related foundation is quite as clear-cut as this one. A review of the evidence presented and the specific court records demonstrates that the foundation has almost complete independence from the public university, (388 SE2d at 311) except in some cursory interactions between the two where efforts were made to prevent operational inefficiencies. On the question of funding and control of funds, the community association had maintained that "only because individuals have chosen to give money to a public institution does the foundation have a dime" (388 SE2d at 312). The court rejected this argument, saying that the money was donated to the foundation by private individuals and there was no evidence indicating that public money, property, or employees were in any way used by the foundation. Therefore, on all counts, the Supreme Court of Appeals upheld the earlier circuit court decision that the foundation was not a public body.

Michigan

Michigan provides another important case for consideration in this discussion. [475 NW2d 373 (Mich. App. 1991)]. Although the case does not involve an institutionally related foundation directly, it does involve an important decision about the release of the names and addresses of a public university's donors under FOIA. It is of interest to this study because—although the university was ruled a public body as defined by FOIA—the specific information requested was deemed exempt from disclosure under FOIA's privacy exemption. This case provides a precedent for challenges to institutionally related foundations from which similar information is being sought under the federal or individual state FOIAs.

The Michigan State University Clerical-Technical Union requested that Michigan State University (MSU) provide the names and addresses of certain donors. MSU released the information requested by the union with the exception of the names of anonymous donors and the addresses of other donors. The union was not satisfied and brought a FOIA action against the MSU board of trustees in circuit court. The court ruled in favor of the union, holding "that a donor who allows his name to be published by the university has no right of privacy in his address" (MSU Union v. MSU Trustees, 190 Mich. Ap. 300, July 1991). This ruling was of interest to public universities and institutionally related foundations since a common donor stewardship technique is to publish an annual giving report that lists donor names (except those who wish to remain anonymous) and a range, often identified as a "club," within which their gift lies.

MSU appealed. At no time in the judicial process were challenges made regarding MSU's qualification as a public body under FOIA. Instead, what was in dispute was whether donors' home addresses are exempt from disclosure according to FOIA's privacy exemption and, if so, whether that exemption is warranted. The Michigan Court of Appeals found that:

MSU is a public body as defined by FOIA and therefore is required to disclose information under FOIA;

- donors' addresses are personal information and the release of names and addresses inherently constitutes an invasion of privacy;
- release of donors' addresses would, according to standards set by the Michigan Supreme Court, be an unreasonable invasion of privacy. According to these standards, the appeals court found that the public interest did not outweigh the potential harm of disclosure, and donor addresses have a minimal relationship with the university's function as a public agency;
- in attempting to assess the harm that disclosure could cause, the court recognized that the donors might be subjected to harassment by the union and may make the donors targets of other unwanted solicitations; and
- the disclosure of donors' names and addresses of donors contravenes the public interest because it would have a chilling effect on donations to the university and to other public bodies that rely on private contributions. [475 NW2d 373 (Mich. App. 1991) at 374, 375].

In preparation of affidavits in support of MSU, legal counsel quoted extensively from the federal FOIA and the Internal Revenue Code. In counsel's opinion, neither appear to require disclosure of donors' names and addresses. In other affidavits in support MSU, fund-raising experts offered their opinions; while more anecdotal, their statements are no less compelling in making the case against disclosure of donors' names and addresses.

For the moment, the courts have agreed and have given institutionally related foundations—those declared to be private agencies and those labeled public bodies—some precedent to follow when donors' names and addresses are among the pieces of information requested under FOIA.

South Carolina

Weston v. Carolina Research and Development Foundation [401 SE2d 161 (SC191)] generally is regarded as the case that marks a shift in court decisions toward holding that institutionally related foundations *are* subject to state FOIAs. As in other cases, the pivot on which this case hinged was the "public body" question. Also, as in most other cases presented, this decision was an appeal from a lower court.

In 1987, the *Greenville News* and the Associated Press sued the Carolina Research and Development Foundation in the South Carolina Common Pleas Court to gain access to financial records on the basis of a report that the university had diverted public funds to the foundation to finance construction projects, including the university's fine arts center (*Chronicle of Higher Education*, Feb. 20, 1991). According to the facts presented, four separate financial transactions involving the foundation, when considered together, demonstrated that the foundation was supported by and expended public funds [401 SE2d 161 (SC 191) at 163, 164].

The case quickly took on the characteristics of a Grade B movie. Pressure from the media and state legislators forced the foundation to release details of university President James B. Holderman's discretionary funds, which were managed by the foundation. When these records showed that foundation funds were used to supplement his income and finance lavish expense account purchases, Holderman resigned. The continuing investigation ultimately won a Pulitzer Prize and a 1992 Investigative Reporters and Editors' Award for the *Greenville News* (*Washington Journalism Review*, April 14, 1992). The results of the investigation eventually reached from South Carolina to the U.S. Senate (*Fund Raising Management*, July 16, 1991) and ultimately resulted in the resignation of the foundation's executive director, the university's chief financial officer, and nine foundation board members.

These events fueled media and public outrage, but ultimately were irrelevant factors in the South Carolina Supreme Court's ruling on the appeal from the lower court. The South Carolina Supreme Court ruled that the foundation fell within the state's definition of a public body based on the following portion of that law: "The FOIA defines 'public body' as...any organization, corporation, or agency supported in whole or in part by public funds or expending public funds..." (401 SE2d 161). Therefore, based on the four financial transactions where public funds either were diverted directly to the foundation or were managed by the foundation, the South Carolina Supreme Court upheld the lower court's decision and ruled, "Since we have determined that the foundation is a public body due to its activities involving public funds, we conclude that summary judgment (of the lower court) was appropriately granted to respondents (Weston, d/b/a the *Greenville News*)" (401 SE2d at 165).

There is an interesting footnote to this decision, however. The court also found that the "FOIA did not apply to business enterprises which receive payment from public bodies in return for supplying specific goods or services on an arm's-length basis" (401 SE2d at 162). Therefore, the court conceded that if the foundation had received these public funds in exchange for identifiable goods and services, it might have reached a different decision about FOIA's application to the foundation (401 SE2d at 165). Thus, while the South Carolina case marks the beginning of a trend toward more public disclosure, the particulars of the case—as with most of the other state cases—make generalization difficult.

Ohio

Perhaps the court decision of greatest interest to institutionally related foundations nationwide was the 1992 decision of the Supreme Court of Ohio in *Toledo Blade Co. v. University of Toledo Foundation* [602 NE2d 1159 (Ohio 1992)]. The court found that the University of Toledo (UT) Foundation was a public office and therefore was subject, under statute, to disclose documents, reports, and records. But more important, the court also stated that the names of donors must be revealed, unlike any other case to date.

The suit began with a letter from *Blade* attorney Britz Byers to Timothy McCarthy, UT Foundation attorney, requesting certain financial records. The letter stated that "the *Blade* believes that the Foundation and its predecessor entities are public offices within the meaning of R.C. 149.43. Therefore, the records the *Blade* seeks are public records that must be made available for inspection under the mandate of that statute." An editorial published by the *Blade* was more specific about the newspaper's intentions, saying that the paper felt obliged "to shine flashlights in dark corners."[12] Although McCarthy's reply indicated that "the foundation is not a 'public office' subject to the Public Records Law," he did agree that in the spirit of conducting its affairs in an open manner, the foundation would make available for inspection those records the *Blade* had requested, with one important redaction—the names of its donors and any other information identifying them.

The situation escalated quickly. The *Blade* moved to file a lawsuit with the Ohio Supreme Court on Sept. 4, 1991 requesting all records, including the names of donors to the foundation. During the same week in which the *Blade* filed its lawsuit, the foundation, which the *Blade* called "the secretive organization that controls almost $40 million in university endowments and investments,"[13] voted, on the advice of legal counsel, to take three actions that would increase its independence from the university, according to various accounts in the *Blade*:

1. remove the university president and four university trustees as voting members of the foundation board;
2. approve a budget to pay the salaries and benefits of eight university employees who carry out the work of the foundation; and
3. remodel and relocate the foundation's offices so they are physically separated from the university's development offices.

The UT Foundation had not been without problems in the months immediately preceding the *Blade*'s challenge. In June 1991, the faculty union had requested an investigation into UT Foundation spending, charging that academic programs were suffering because the foundation was spending too much on athletics and administrative costs. The results of the faculty-prompted investigation revealed facts reminiscent of the Weston-South Carolina case. Although the funds were provided for the president's discretionary fund largely through the sale of farmland that was donated to the foundation, the faculty questioned whether such "lavish" spending was an appropriate use of the funds from a donor's bequest.[14] The UT Foundation responded by appropriating another $100,000 in discretionary funds for the president at the same meeting in which it proposed the plan to increase its separateness from the university.

The case is fairly simple. Key among the factors the court considered was the foundation's relationship to the university and the foundation's mission. As in the Weston-South Carolina case, the definition of a public office was central to the court's decision. According to Ohio Code 149.011 (A), a public office is "any state agency, public institution, political subdivision...or any other organized body...established by the laws of this state for the exercise of any function of government" [602 NE2d 1159 (Ohio 1992) at 1161]. The court added that the "entity need not be operated by the state...to be a public office" [602 NE2d 1159 (Ohio 1992) at 1161]. According to the court, a private nonprofit corporation could be designated as a public office if it performs a public function or is in whole or in part supported by public moneys. The ties between the foundation and the university cited by the court included the foundation's creation in 1990 from the merger of two organizations (the alumni foundation and the corporation that received funds for the university); the mission of the foundation, which is "to receive, hold, invest funds, administer property and to spend funds for the benefit of the university"; and the pooling of $17 million in endowed funds in the name of the university and $23 million in the foundation's own name into a single investment portfolio (602 NE2d 1159 at 1162).

Therefore, although the foundation does not have a policy-making role within the university, it does perform an indispensable function and is a public office. Since its recordkeeping is a government function, and because significant public interest is served in knowing from whom donations come and how the university spends its money, its records—including the names if its donors—are subject to disclosure (602 NE2d 1159 at 1163).

Perhaps most important about the case for institutionally related foundations is the question the case did not address or answer: Must other information regarding donors (besides the donor's name) be made public? In a (reluctant) concurring position, a justice offers an opinion on this question, even though it was not part of the case, stating that he was troubled that a person's private charitable activities could be the subject of public scrutiny (602 NE2d 1159 at 1165).

The Supreme Court of Ohio's landmark decision might be described best as the watershed for those on both sides of the issue of disclosure as it relates to institutionally related foundations. Following its victory, the *Blade* continued to write and publish challenging articles based on its review of the UT Foundation records that dated to 1974 when the University of Toledo Corporation was formed. Despite the caution advised by the court, the *Blade* also reviewed and published information from the personal and financial records contained in the donor files. Much of the specific research on current and potential major donors published by the *Blade* included the names of donors' friends, their incomes, their giving histories, their addresses, and other details of personal financial histories.

Seeking Guidance and Meaning

What do all of these cases, and the Toledo case in particular, mean for the nation's institutionally related foundations, boards of directors, and public institutions? CASE correspondence files reveal a growing concern among institutionally related foundations that the Toledo decision will undermine the trust and confidentiality essential to the relationship public institutions have with donors. The Toledo and other court decisions also have served as a rallying point for directors who see the need to develop a coalition to deal with issues raised by the decisions and to examine the operations of their own foundations for any practices that may raise similar questions of fiscal abuse and mismanagement.

Requests for information from legislatures, auditing departments, and the media continue to arrive in institutionally related foundation offices across the country. In many states, these foundations are reviewing recent legal decisions and preparing an appropriate answer for those requests when and if they come. As one university relations vice president said, "I believe [that these requests are] just one of the many future governmental and regulatory attacks upon development operations...the record of defense against governmental intervention has been mixed. However, each new case raises a new set of issues that can be escalated to a national level."

Thoughts for the Future

In an environment where newspaper articles titled "Privacy Lost in High-Tech Era,"[15] and "Privacy Threat Raises a Cry for New Protections,"[16] increasingly are common, the concerns about protecting donor information may seem inconsequential. Additionally, authors such as Robert Elise Smith in *Our Vanishing Privacy* remind us that vital facts about peoples' lives not only are available readily, but can be "spread...all over the place."[17] Smith sums up the irony of our age: "By day, most of us earn our livings collecting or disseminating information of one sort or another. By night, as consumers and citizens, we complain about the intrusions into our privacy." While most individuals are aware that many bits of information about individual lives are available to credit bureaus and financial institutions, few ever stop to consider how much information can be assembled by those willing to invest the time and money required to develop a comprehensive personal profile.

A 1993 *Boston Globe* series on issues of privacy assessing how to deal with this assault suggests that the government's response has been slow and that the few privacy laws that do exist are enforced piecemeal. Has the battle for privacy already been lost somewhere along the information highway? Are the legal battles being waged by institutionally related foundations to protect information about their donors, in a word, silly? Are institutionally related foundations being hypocritical in their attempts to protect the information about donors that they pay professional researchers to gather? Does it matter? Former New York City Mayor Edward Koch suggests that it does. "Privacy matters because it's what distinguishes us from a totalitarian society....It's one of the prizes, one of the pearls of our society, that we focus on privacy and the rights of the individual."[18]

How the government and the public will deal with these broad and serious questions are topics for other publications. But examining how institutionally related foundations and some states have moved to address the issues raised by challenges to an individual's privacy may provide some guidance and direction. Some entities, including the University of Minnesota Foundation, the State of Maryland, the University of Virginia, the Connecticut Board of Governors for Higher Education, the University of Hawaii Foundation, and the University of Florida, have moved conscientiously to develop specific policies on disclosure. Their efforts and the efforts of other states, boards of governors, boards of directors, institutions, and institutionally related foundations—however incomplete—are essential to defining more clearly the basic policies and relationships of institutionally related foundations. By formalizing these policies and relationships, challenges to the autonomy and independence of institutionally related foundations and the related issue of donor confidentiality can be addressed.

James W. Leslie, founding president of the Society for Institutionally Related Foundations (SIRF), and Peter McE. Buchanan, CASE president, have on numerous occasions suggested practical steps that institutionally related foundations can take to avoid problems and challenges. They seem to agree that preparation is key. In this climate, institutionally related foundations should consider the following:

- Examine their positions vis-à-vis their own state open-records laws;
- informally apply the tests courts have used to determine the nature of institutionally related foundations as public bodies;
- review the level and type of funding, if any, the institutionally related foundation receives from the state;
- assess the level of operational independence the institutionally related foundation has from its college or university;
- measure the level of control the college or university exercises over its related foundation;
- clarify the distinct missions of the institutionally related foundation and its college or university;
- correspond with other institutionally related foundations that have met recent challenges and seek information and their advice; and
- assess, through self-examination, the operations and expenditures of the institutionally related foundation for instances that could be portrayed as violations of the public trust and confidence.

A thorough self-examination, the preparation of a draft position paper, and participation in a national network of institutionally related foundations may save foundations, colleges and universities, and ultimately, private supporters of higher education millions of dollars that otherwise would have been spent on protracted lawsuits. As one participant in a recent CASE conference concluded, "Life is going to get more complicated for all of us... We're going to be spending more time answering questions and explaining ourselves, and, quite often, that's going to take away time from what we're supposed to be doing—fund-raising and supporting our institutions however we can."

A final thought on the practical implications of the information presented in this chapter can be found in the writings of U.S. Supreme Court Justice Stephen Breyer. Justice Breyer has been commended for his interest in making sure that the "social understandings [that] underlie basic rights work in everyday life."[19] Reflecting his belief that the Bill of Rights must work outside the courtroom as well as in, Justice Breyer cited a case involving a suit brought by Vanessa Redgrave against the Boston Symphony for canceling a contract with her because of her controversial politics. Ms. Redgrave won a monetary settlement, but the Massachusetts State Supreme Judicial Court ruled that she did not have a valid civil rights claim because the symphony was a private party. Although Justice Breyer supported the court's ruling, he added that: "the parties themselves [by extension, all of us] still have a huge role in making freedom work. 'Just because you have a legal right to do something, doesn't mean you should do it'." These are words that perhaps state auditors, news media personnel, and directors of institutionally related foundations might remember as we all work toward ensuring the excellence of our public higher education system. ■

[1] Fisher, James L., "Establishing a Successful Fund-Raising Program," *The President and Fund Raising*, James L. Fisher and Gary H. Quehl, eds., Macmillan, New York.

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CHAPTER 14

The Foundation as an Institutional Resource: A President's View

Thomas C. Meredith

In the early 1980s, higher education began to face a political world that was asking a good many questions before appropriating scarce dollars. California's Proposition 13 initiated a tax-cut frenzy across the country that drained state treasuries. Budget cuts became commonplace as demands for state dollars expanded. Demands on state resources from many agencies and services continue to grow; the priority position of higher education on the funding scale generally continues to decline. Prison demands, K-12 reform, and health care needs have placed additional strains on state budgets. According to the *Chronicle of Higher Education*, this trend, which started in earnest in the early 1980s, became more pronounced in the 1990s. The outlook for the remainder of this decade is not positive.[1]

The solution for many public universities was to follow the private institution model and seek private funds. The Council for Aid to Education (CAE) reports in its 1985–86 edition of *Voluntary Support of Education* that private support for public institutions quadrupled from 1976 to 1986. It also reports that of all gifts reported to the council in 1986, one-third went to public institutions, up from one-fourth a decade earlier. In a 1994 report, the council calculates that public institutions with masters' programs increased their voluntary support 11 percent since 1988 and 26 percent since 1975. At these same institutions, there was a 30.9 percent increase from 1993 to 1994 (academic years). These data suggest that institutionally related foundations for public institutions were being developed in tandem with this new success. Private institutions had not needed foundations. Clearly, public higher education was now in the private fund-raising business—and was finding success.

Why go to the trouble to establish an institutionally related foundation? Why not just handle the funds within the institution using university personnel? The answers are clear; they involve people and money. On the people side, all institutions benefit from having effective governing board members. Committed people of stature and means, leading meaningful lives, make our institutions better. Unfortunately, a limited number of spaces are available on governing boards. What's more, some of them will be filled solely for political reasons. The foundation board provides an excellent additional avenue for bringing committed people into a defined relationship with the institution in greater numbers. These additional volunteers, with a defined focus on fund-raising, are major assets to the institution.

The "people as resources" aspect extends to internal personnel as well as external volunteers. Foundations allow some institutions to provide supplemental benefits to hire faculty and administrators whom they could not otherwise afford. This provides the opportunity for institutions to hire "stars" who can elevate a college or university to a new level. The debate regarding using these funds to supplement salaries within the administration remains unsettled. The use of these dollars for faculty research grants, equipment, and travel is far less controversial.

On the monetary side, the advantages of having a foundation are numerous. First and foremost, a foundation provides the structure for keeping public and private dollars from being commingled. Every public institution president's nightmare is to discover that public dollars have been used for something that should have been purchased with private funds. Although gifts, especially major ones, are directed many times to purposes not ordinarily seen as appropriate or necessary for tax dollar support, the fear always exists that state appropriations will be reduced to offset private gifts. Michael J. Worth addresses this latter topic when he states that "Receiving and managing the funds in a private foundation provides a measure of control that can prevent such a result."[2]

Gary A. Ransdell, vice president of administration and advancement at Clemson University, notes that foundations often can respond to opportunities quickly and efficiently, and they can allocate funds for urgent needs that cannot be met with public appropriations.[3] Foundations also can invest assets with more flexibility and more expediently than some states would typically allow public institutions to invest. Foundations are able to invest more aggressively and produce a larger return for the institution. Also, they allow the institution to purchase real property that might not be on the market long enough to permit the institution interested in purchasing it to follow state acquisition processes. (While real estate acquisitions may have had a more prominent role as revenue sources in earlier foundation days, they still are valuable assets today.)

A foundation can provide an institution chief executive with the resources to fulfill the presidential role more effectively. As state dollars increasingly are scarce and calls for accountability are heard more frequently and more loudly, entertainment with public dollars is becoming less acceptable on campus and elsewhere within a college's greater community. Foundation dollars for this purpose may be budgeted annually, but they should not represent a significant portion of the dollars available to the president. Given the myriad roles college administrators play, it is necessary for a president to have the opportunity and resources to develop supporters, advocates, and potential donors for the institution. The institution's president must attend community and statewide cultural events and be a participant in appropriate social organizations for development purposes. The familiar adage that friend-building and fund-raising are inseparable still is viable.

The foundation also may provide resources to supplement employment benefits for a president the institution strongly desires to keep. The supplements may be salary (with cautions already noted), annuity, health and life insurance benefits, spousal travel, household furnishings for entertainment, or a discretionary account, for example. The issue of spouses is always a sensitive one. Spousal involvement in fund-raising is crucial. In May 1994, the Council for Advancement and Support of Education (CASE), the Society of Institutionally Related Foundations (SIRF), and the Association of Governing Boards of Universities and Colleges (AGB) jointly hosted a conference on Funding and Managing an Institutionally Related Foundation. Georgette Mosbacher, president and CEO of Georgette Mosbacher Enterprises and trustee of the Indiana University Foundation, made the case for involving women in fund-raising. She reported that 41 percent of all those people with assets of $500,000 or more are women. Certainly, not all presidential spouses are women, but they currently represent the majority. Their role in helping cultivate women of means is invaluable.

The foundation fulfills a crucial role in providing the monetary resources the president needs to carry out his or her responsibilities more effectively and efficiently. In doing so, the president must not violate the trust of the foundation or jeopardize the reputation of the institution with regard to these resources. The president must put the interests of the institution first with the expenditure of every dollar—public or private. He or she should collaborate with the foundation board to create a budget that plans for unrestricted funds or other discretionary dollars, if needed. Further, the president should provide subsequent documentation to the board for every penny spent.

Keys to a Successful Foundation

As with most things, how a foundation begins is vital to its success. Its beginning either will garner quick support or it will generate enough suspicion to delay the foundation's effectiveness for some time. Some faculty, who are predisposed to inquiry and questioning, may view the new foundation with some suspicion. Some may see the foundation as a tool to benefit the administration; some may conclude that the board, comprised of people they do not know, suddenly will have access to vast resources to spend unchecked. All of these misconceptions and concerns should be addressed at the foundation's earliest planning stage in candid, open roundtables to which various institution constituents should be invited. The entire campus community should be made aware of the foundation's proposed structure, restrictions, intent, and future fund-raising possibilities. All affected parties should know of the foundation's intention to have a code of ethics, a conflict-of-interest provision, and written policies covering all aspects of its operation. They should know that the workings of the foundation will be open—even if they do not have to be—to the extent that personal privacy and donor interests are not violated unnecessarily.

As much as possible, all threads of suspicion must be removed. A foundation never can reach its potential if trust is not present from donors and recipients. Trust from key constituents, on and off campus, is one of the foundation's most important and most perishable assets. Few, if any, fund-raising goals can be achieved by a foundation or host institution that is not trusted. Additionally, once trust has been breached, regardless of the reason, it can be time-consuming, expensive, and extraordinarily difficult to reclaim (see Chapter 12).

The Foundation Board Role

The role of the foundation board once was simple. Individuals who were appointed understood the three "Gs"—give, get, or get off. At some point, this set of instructions was expanded to include providing wealth, wisdom, and work—or at least two out of the three. However, the role of today's foundation board member is larger still. Royster C. Hedgepeth, vice chancellor for university advancement at the University of Massachusetts, has written extensively about the expanded role of foundation board members. He points out that board members also are responsible for oversight, maintaining external credibility, evaluating the clarity of communications between the institution and the foundation, establishing procedures for reporting results, and evaluating the foundation's executive staff. Added to these should be responsibility for asset management. Given the assets involved in many of today's foundations, good stewardship in asset management is essential. The flexibility the foundation enjoys in this area brings with it an increased need for diligence and accountability.

Another new role of foundation board members is to serve as a sounding board regarding the fund-raising priorities and goals established by the governing board. Without question, priorities and goals must be identified and advanced by the president and set by the governing board. The foundation board, however, can and should operate in partnership by offering its informed view regarding the practicality of meeting the goals. The foundation board members are ideally positioned to determine if funding goals are realistic. Consequently, when the president, the governing board, and the foundation board are in agreement, the foundation board should do everything possible to meet the goals. The "bottom-line role" of the foundation board should be service. It should have no spending agenda. Rather, it should provide the organization and resources necessary to support the mission of the institution and the specific fund-raising priorities established by the governing board.

The Foundation Chief Executive

The foundation chief executive position may be structured in a variety of ways in terms of reporting lines. Some foundations are separate totally, with the foundation executive responsible only to the foundation board. In this configuration, the president of the institution may have little influence on the foundation. At the other extreme is the foundation executive who, along with the foundation board, plays only a minor role, while the president of the institution dominates. Neither structure is particularly healthy for the institution. The separate, dominant foundation executive responsible only to the foundation board may develop personal agendas and not keep institutional needs at the forefront. Conversely, the overly dominant president unintentionally may squelch the involvement and enthusiasm of the foundation executive and the commitment of the volunteer foundation board.

In the structure deemed most effective and preferred by many institutions, the foundation executive is an officer of the institution or considered to be one on an operational basis. The foundation executive should be a member of the president's cabinet to enable him or her to more easily transmit and receive information firsthand about the institution and its direction. However, this person should not become mired in institutional committee bureaucracy. The foundation executive must be given the authority to run the foundation, have ample time to pursue gifts, and work closely with the foundation board. All of these activities should be conducted with the clear understanding that the foundation executive reports to the president of the institution and is evaluated by that individual, in partnership with the foundation board.

The foundation executive's title may generate discussion in some circles. Some institutions use "foundation president" to denote more prestige and possibly to open more doors. However, this designation has the potential to cause confusion, especially with external constituencies, and may produce power rivalries if the institution's chief executive also holds the title of president. If the foundation chief executive is an officer of the institution, he or she may hold the title of vice president for institutional advancement and executive director of the foundation. This solution is somewhat cumbersome and may not be ideal either. Titles depend in large measure on institutional preference. The rule of thumb is to make sure that the title for the foundation chief executive is clear, accurately identifies level of authority and rank, and conforms to your institution's traditions.

Regardless of title, the foundation executive must be politically astute enough to know when either governing board or foundation board politics are threatening the foundation's effectiveness. The foundation executive must then exercise all of his or her political skills to maintain a proper balance between the two entities and stay focused on the fundamental role of the foundation.

One of the most important functions of the foundation chief executive is to arrange for visits between the institution's president and key prospective donors. Most presidents accept the time commitment necessary for fund-raising meetings, events, and other activities. To ensure that the institution's president is effective, gracious, and serves as a bridge-builder between the institution and a prospective donor, the foundation executive should brief the president thoroughly with information about the donor: biographical data, areas of interest, their previous or current affiliation with the institution, the size of the request (if making "the ask" is the purpose of the visit), and any other pertinent information regarding the visit.

A President's Obligations

The foundation should look to the president for leadership and for clarification of the institution's direction. The president should sit on the foundation board. Here again, opinion is divided regarding whether the president should have a vote on this board. To preserve the foundation's autonomy, one camp strongly believes that the president should not vote. Such nonvoting status also will ensure that the president's position is not seen as self-serving, especially since foundation funds sometimes are allocated for the president's use. Others feel just as strongly that the president's vote is simply one among many and is necessary to protect the institution's interest. This matter, too, is one of local option.

In any event, the institution's president should cultivate the members of the foundation board in the same manner that other potential donors are cultivated. The board members should be held in the same esteem as members of the institution's governing board. They are that important.

Governing Board Relationship

The foundation's relationship to the governing board should be one of service with no spending agenda other than the one established by the governing board (see Chapter 15). The governing board never should have any reason to believe that its authority is threatened by the foundation board. The key here is communication. Hedgepeth observes that, "As the pressure for private support intensifies, the foundation board should work to develop an even more articulate relationship with the university's governing board to ensure the mutual strengths of their efforts."[4]

The Foundation's Role on Campus

The hallmark of the relationship between the foundation board and the campus should be communication. Openness should be demonstrated on gifts and expenditures within the boundaries described earlier. The foundation should "brag" about gifts and constantly reinforce its commitment to supporting institutional goals.

Special Challenges

Every organization should be reviewed periodically. A review provides the opportunity to assess the direction being taken, as opposed to the direction stated. The refocusing that usually occurs in this process is always helpful. Moreover, confirmation of the relationship between the institution and the foundation is healthy. The "Basic Foundation Checklist" (Exhibit 1) will be useful in this regard. The use of outside consultants provides a fresh professional perspective as well.

A challenge exists when multiple foundations exist on one campus. In some larger and older institutions, these foundations came into existence over time to address specific needs or assist a specific discipline, especially law and medicine. Each foundation views itself as quite independent and autonomous. A few institutions have managed to centralize the management of multiple-foundation activities under an umbrella foundation, since multiple-foundation organizations on one campus can be terribly inefficient, duplicating much effort, cost, and personnel.

More dangerous, however, is when personnel from multiple foundations find themselves knocking on the same doors. When prospective donors are visited or cultivated by fund-raisers from different foundations who clearly don't know they are following in each other's footsteps, harm can come to the institution's overall fund-raising initiative. Coordinating the efforts of these multiple foundations in terms of donor contacts, asset management, and resource use, for example, is more efficient and more effective. It also lowers risk. Individuals still can be assigned to deal primarily with specific fields, industries, or business interests if the multiple foundations elect to become part of an umbrella foundation. If they elect to remain autonomous, then the first step should be a basic, common plan for coordination and cooperation.

Do's and Don'ts for Success

The following "do's and don'ts" are offered as guidelines from one president's perspective to help ensure a foundation's success:

Do:

- ask if the foundation is best for the institution,
- appoint a *bona fide* professional as the foundation executive,
- recruit committed, hard-working foundation directors,
- clarify the roles of the foundation board and governing board,
- communicate, communicate, communicate,
- deposit donations and gifts quickly to demonstrate efficiency and need,
- determine the feasibility of institutional goals,
- develop sound and forthright foundation bylaws,
- develop clear operating policies,
- develop an ethics code and a conflict-of-interest policy,
- distribute income according to an established policy,
- educate donors and the campus,
- establish an executive committee to conduct business between meetings,
- establish positive media relations,
- expect board members to give,
- express appreciation for gifts,
- have an audit policy,
- follow the directives and wishes of donors,
- know and obey the law,
- manage assets well,
- meet regularly with faculty,
- operate as openly as possible,
- operate in a fiscally sound manner, and
- report expenditures of unrestricted funds.

Don't:

- accept any and all gifts regardless of circumstances,
- appear secretive and defensive,
- assume that good business practices are being followed,
- assume that money received belongs to the president,
- assume the state will exempt the foundation from public oversight,

- commingle public and private dollars,
- have a conflict of interest—or the appearance of a conflict of interest,
- play governing boards and foundation boards against each other,
- serve limited interests,
- set spending priorities in lieu of governing board's agenda or that supersede the institution's priorities, and
- spend foundation dollars for personal gain. ■

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CHAPTER 15

Fostering Successful Relationships Between Governing Boards and Foundation Boards

Richard D. Legon

In the pursuit of resources necessary to sustain and enhance the quality of public higher education, all players—governing boards, college and university presidents, and institutionally related foundation boards—are in the game together, or should be. Unfortunately, when the process doesn't work smoothly, the results can have serious consequences. Consider these hypothetical but all too typical scenarios:

At Institution A, a newly arrived president decides that the campus is far too fragmented and the general public is dangerously ignorant of the university's value to the state. The president decides that a "unifying" major project is in order and decides on constructing a $60 million campus center where all parties can come together in common and dedicated facilities. With the verbal backing of others in the administration and informal encouragement of a few members of the governing board, he announces to his vice president for advancement that he intends to seek approval for the project during his first meeting with the foundation board. He is advised that the foundation, acting in accordance with its five-year plan and conforming to the funding priorities developed by his predecessor, is focused entirely on academic program priorities, including funding a dozen or more endowed professorships and faculty chairs. The foundation board, in fact, has taken the position that capital construction projects are the responsibility of the state. The president is advised further by the foundation's competent, professional fund-raising counsel that raising money for this type of project is viewed in the "industry" as among the most difficult. He perseveres with his plan. The foundation board votes it down. He holds his vice president, who is also executive director of the foundation, responsible. The project is shelved. The vice president's residential professional life is shortened.

At Institution B, a governing board member, acting independently and on the strength of his zeal for intercollegiate athletics, convinces the college president by "wearing her down" that a new multiuse (but principally athletic) facility should be constructed. His proposal is based on the assumption that increased student fees and event-admission revenues will more than amortize the costs. On the strength of these assumptions, governing board approval is sought and secured, but the project bids exceed the internal estimates by $5 million. The president approaches the foundation with a sense of desperation and convinces the foundation directors to set aside agreed-upon funding priorities and to focus on funding for the facility. The foundation meets with some impressive success, but the funding does not materialize in tandem with the construction schedule. Fingers are pointed; scapegoats are sought, found, and vilified; and public controversy surrounds the opening of the new facility.

At Institution C, the senior system financial officer, who adamantly opposed the creation of a foundation (see Chapter 10 for possible explanations), works with the chair of the governing board's finance committee to "keep the foundation under control." The methods for doing so approach vindictiveness, including scheduling internal audits during December, the foundation's busiest month; attempting to issue scathing "internal audit" reports on the foundation that indict it with the slightest of perceived infractions; recommending against increases in institutional contribution to fund-raising programs; and refusing to even consider loans from reserves for capital purchases such as computers and upgrades even though such purchases clearly will benefit the entire spectrum of alumni relations. Other trustees sympathetic to the foundation, including the board chair, seem unable to change this behavior.

At Institution D, the foundation directors repeatedly expresses their disappointment in the performance of the institution's president. Finally, they go on record as being opposed to the president's continuing service and are openly critical of the governing board's inaction on the matter. The foundation votes to withhold further grant and gift transfers to the institution until the matter is rectified to their satisfaction. The president, under increased pressure, ultimately resigns.

None of these scenarios suggest warm, friendly, and productive relationships among the three parties charged with securing and administering dollars necessary for the general good of the institution. Most troubling in all of the scenarios is the inherent and obvious friction between the institution's or system's governing board and the foundation's board of directors. Clearly, the relationship between the foundation and an institution's or system's governing board is an important element in successful institution fund-raising and resulting asset management. The public college and university foundation, led by a committed group of volunteers, can make the difference between a truly exceptional enterprise and a mediocre one. While membership on a foundation board signals personal achievement, it also symbolizes the foundation volunteer's awareness of the institution's significance to the lives of the students it educates and the publics it serves, and demonstrates a commitment to the philanthropic spirit that makes our country unique.

Today's public colleges and universities face a severely changed financial environment, making raising funds from private resources an essential activity. To meet that pressing need, foundations carry out the institution's primary development activities; its board derives its authority and legitimacy from service to its host institution. A healthy governing board-foundation board relationship is marked by mutual respect and a clear understanding of shared, distinctive, and complementary responsibilities. But a much more complex and multifaceted relationship between the two entities is needed if the challenges and joys of raising significant private support are to be realized. The preferred relationship is premised on open communications, appropriate interaction, and shared information, whereby the governing board and the foundation board are able to carry out their respective responsibilities most effectively.

This chapter is designed to help provide insights for presidents, chief staff officers of foundations, and members of governing and foundation boards. It will review the primary elements of the relationship (including the governing board's responsibilities in fund-raising), address the ambiguities that can cause problems in the relationship, and suggest communications practices that will facilitate candor between the two boards and result in greater success in the institution's fund-raising activities. In addition, it enumerates some of the ethical issues that can pose challenges that need to be addressed through specific policy decisions, and it addresses the special issues associated with multicampus systems and the foundations that serve them and their campuses.

Clarifying the Relationship

The increased importance of private support for public colleges and universities highlights the need to understand the mutual roles of the governing and foundation boards. Successful fund-raising requires an appropriate balance of foundation autonomy and a corresponding accountability to the institution through its governing board. While the foundation and governing board each has specific responsibilities, the governing board is responsible for establishing the policy framework within which its foundation(s) must operate. In shaping its policies, the governing board should demonstrate its respect for the commitment of the foundation board's volunteers and recognize the added value the foundation brings to the institution, including acknowledging that the institution becomes a more attractive object for support when the community perceives it to be well-governed and regards it as meeting the needs of the state.

The degree to which the respective roles and responsibilities of governing and foundation boards are understood and implemented can create turmoil or success. Orientation programs for the boards should include a detailed overview of the role each has in fund-raising. The locus for the boards' relationship and cross communications resides with the institution's president. The president is responsible for promoting successful communications between the boards and creating a process to establish realistic funding priorities. Further, the president should accept the task of bridging the interests of the governing board and the foundation.

Setting Fund-Raising Priorities

The process of establishing fund-raising priorities, if not well-coordinated, can lead to increased tension between the governing and foundation boards. Establishing and honoring an institution's funding priorities is a collaborative process that includes both boards, presidential leadership, and the campus community. The institution's president should lead the process and provide a vision for the institution that results in a proposed list of private funding priorities. The manner in which institution priorities subsequently are treated should be structured to maximize awareness and support in the institution and foundation. Nevertheless, the process can fall apart if all parties have not been consulted adequately. Presidents, working with the chairs of both boards, and the foundation's chief staff officer should follow an ongoing process that establishes and evaluates institutional priorities. The process should emphasize openness and candor—and minimize turf battles.

The president should be free within the character and politics of the institution to determine if priorities will "bubble up" or be more influenced from the top down. In either case, the "raw material" of the institution's priorities generally is subject to refinement with the governing board. The trustees might elect to leave the priorities' list intact, adjust the list to reflect better the long-term goals of the institution, or determine—perhaps in consultation with the president—that certain programs or projects are more appropriately supported with "captured" resources (such as those originating with tuition, fees, and auxiliary income) or through federal grants or state appropriations. Regardless, in an ideal world, the refined priorities list then is carried by the president to the foundation's leadership and board where it undergoes a "reality check" in terms of current trends in philanthropy, cost versus potential, and the operating policies of the foundation.

The tensions that can arise when it comes to "owning" institutional priorities can be reduced or eliminated if the governing board and foundation board clearly understand these distinctive roles and demonstrate respect for each other's responsibilities. An ongoing, coordinated institution "feasibility assessment" of emerging priorities can be carried out jointly, without jeopardizing either the governing board's ultimate responsibility for setting institution priorities or the foundation board's need for autonomy.

Foundation Board Responsibilities

The specific responsibilities of foundation boards and their volunteers are addressed in detail elsewhere (see Chapters 4 and 8). To further clarify the distinct roles that fall to each board in attracting private resources for the institution, several of the foundation board's responsibilities are highlighted below, followed by a summary of the governing board's responsibilities:

1. Review of Funding Priorities

A foundation board must recognize its important but somewhat limited role in this area. A foundation exists primarily to serve its host institution through fund-raising and asset management. It has a limited role, at most, in establishing the institution's funding priorities it is called upon to help fund. The foundation's primary role is to provide a realistic analysis of the practicalities of attracting support for the institution's specific priorities.

Priorities endorsed by the governing board that require full or partial private support are submitted for foundation board review and consideration. Prior to the submission of the priorities list to the governing board, the foundation's chief executive can help the president determine those priorities most appropriate for the foundation, based upon the likelihood of attracting private support. The enthusiasm required for effective fund-raising on the part of the foundation is best generated when institution priorities, initially approved by the governing board, are shared and tested early on with those who understand that they are responsible for attracting support dollars. If the foundation directors reach consensus that a particular priority cannot attract adequate private support, they should inform the administration and suggest its reconsideration or elimination.

The process of evaluating institution funding priorities illustrates the value of having the foundation's chief staff officer also serve in an institutional role, most commonly as the institution's vice president for advancement. The senior foundation officer, working with the president, can facilitate communications with key players in the institution and the foundation. This dual portfolio also may facilitate the involvement of other institutional voices, including the faculty and other vice presidents, in priority-setting and the fund-raising process. Foundation chief executives serve as institutional officers in nearly 65 percent of the foundations responding to the AGB/CASE survey (see Appendix A).

2. Donor Identification, Cultivation, and Solicitation

Advocacy with current and prospective donors on behalf of the institution is a significant responsibility of foundation board members. Foundation board members must be engaged actively in the process of expanding the list of potential donors, cultivating prospects by involving them in institution activities, and ultimately requesting gifts in support of the institution and its priorities. The structure of the foundation board should include a development committee that oversees these activities of board members.

3. Personal Contributions

Volunteers lead by example. All members of a foundation board are expected make personal annual contributions and provide more generous gifts during comprehensive fund-raising campaigns. Careful recruitment and selection of foundation board members brings to an institution individuals with the capacity to make contributions and to attract other individuals of means to do the same. About 71 percent of the foundations responding to the AGB/CASE survey receive gifts from more than 60 percent of their board members; 38 percent benefit from support approaching 100 percent of board membership. Institution presidents and foundation directors should address the expectation of a personal gift clearly when individuals are recruited to serve.

4. Asset Management

As described in Chapters 6 and 7, foundation boards are responsible for the financial management of all short-term and permanent assets held by the foundation, including funds for specific programs and departments, athletics, and endowment. The portfolio should be structured to maximize holdings for the benefit of the entire institution. The board, through its investment committee, should seek the expertise of professional portfolio managers and perhaps members of the governing board or the institution's administration who have special expertise in issues related to asset management and investment.

These foundation board responsibilities are best facilitated by the following criteria: (1) an organizational structure that emphasizes the role of committees, (2) an orientation process for board members that regularly clarifies responsibilities and priorities, and (3) presidential and board leadership that is effective and forceful.

Governing Board Responsibilities

This principle should be clear: Ultimate responsibility for institution policy resides with the governing board. Governing boards are responsible for establishing the ground rules for the foundation's relationship with the institution. Within this purview, foundation bylaws or formal operating agreements between the foundation and the governing board or institution should provide clear guidelines on the mission and purpose of the foundation, its management and operation, inspection of its records, the liaison arrangement with the institution's administration, and conflict of interest. Clarifying expectations, coordinating work, and ensuring that foundations are carrying out approved missions within the framework of bylaws and formal operating agreements are much more challenging when more than one foundation serves an institution or when a system with multiple campuses have individual or multiple foundations (see Chapter 10 for more on formal operating agreements).

In every instance, a governing board has specific responsibility for carrying out its policy role, even if several areas of board responsibility inevitably overlap with those of a foundation board. The president's ability to act as the interlocutor largely will determine how well each board—and ultimately the institution—fares. If effective communications are absent, several governing board responsibilities have the potential to create problems between the governing and foundation board:

1. Setting an Institution's Mission

Establishing a distinctive institution role and mission and endorsing related priorities are the governing board's responsibilities. While a mission statement should be flexible, it must define and describe a strategic blueprint for the institution. Such a blueprint is important not only for its internal constituencies, but also for the multiple external publics of a tax-supported institution, including state policy makers and foundation directors. It should describe where the institution is headed and how it intends to get there. Foundation boards, which typically consist of prominent individuals, may feel inclined to influence institution priorities. In larger public systems, campus foundation directors may believe that setting priorities is one of their rights or responsibilities. Foundation directors must be careful not to overstep their authority by attempting to influence institution priorities. Doing so causes confusion among lawmakers and the public, creates conflict with the governing board, and results in difficulties for the president.

2. Ensuring Adequate Resources

The governing board is responsible for seeing that the institution or system it serves generates adequate public and private resources. As states continue to reorder support for public needs, competition for limited resources from public higher education institutions increasingly has an impact on the effectiveness of institutions as they strive to provide higher education for all who deserve it. Politically appointed governing board members can play an aggressive and coordinated role with state public policy makers by being advocates for the financial needs of their institution or system through public testimony, by using their personal contacts with members of the state legislature, and especially by helping to inform legislative committees that oversee higher education budget appropriations. Part of their advocacy must include an ongoing awareness-building among legislators regarding the distinctions between public and private support in the life of a state college or university.

As individuals, foundation board members also might capitalize on their political connections. Governing boards and presidents would be wise to call on these individuals to supplement advocacy efforts at strategic points of the legislative process, especially for such issues such as capital construction projects or the authorization or appropriation of state matching programs for endowed chairs. Before doing so, however, presidents should be certain that the message all advocates convey to state lawmakers accurately reflects the institution's or system's priorities. A governing board committee on legislative affairs may be helpful in overseeing and coordinating legislative strategies and can help to educate all volunteers, governing board members, and foundation board members about the institution's legislative priorities.

3. Fund-Raising

The governing board must be responsible for ensuring that proposed funding priorities are consistent with the institution's mission and the realities of funding possibilities. The board oversees the requisite planning—led by the institution's administrators and including the input from its various internal and external constituencies. As a result of such planning, an array of funding strategies can be developed to support department projects, the institution's endowment, faculty chairs, and capital needs. The role of the governing board in planning is necessarily enlarged by approving plans for a comprehensive fund-raising campaign.

As the community's representatives to the state's colleges and universities, governing board members collectively are the bridge between the campus and the state's citizenry. This role helps to establish a favorable climate for private support with individuals and corporations and augments the foundation board's role in communicating institutional needs with current and prospective donors. The foundation board remains the key player in private fund-raising, but the governing board must not abdicate its responsibility to be an active partner in fund-raising simply because the foundation exists. Governing board members who are tempted to take the position that "we have a foundation that's supposed to do that," fail to recognize that implicit in approving an institution's fund-raising priorities is a corresponding and direct responsibility for the success of the institution's fund-raising program. Governing board members must serve by example by making personal contributions and influencing the support of others. If governing board members fail to demonstrate their commitment to the institution through personal giving and donor cultivation, why should anyone else? Similarly, system board members should not use the excuse of overseeing multiple institutions or campuses to justify supporting none. Trustees easily can focus on programs and projects of particular personal interest regardless of where the activities are located in a system.

Current data regarding governing board member giving are unimpressive and weaken an institution's case for support. The percentage of public institutions reporting more than 60 percent participation of governing board members in giving is only 26 percent (see Appendix A). Trustees and regents can and should do better. In an era of fiscal uncertainty and demands for greater institutional accountability, the fund-raising responsibility of governing board members is a fairly new but urgent expectation. This role of public institution governing board members no longer stands in stark contrast to the expectations for personal contributions and fund-raising traditionally held by independent college and university trustees. In the public sector, little tradition exists for personal contributions and fund-raising responsibilities for trustees; rarely are these topics discussed as part of the public trustee selection process. However, the decline of state support compels governing board members to recognize that they must be partners in providing and attracting private resources for their institutions. The old argument that "I already give my time" can no longer suffice. Time does not equate to money when seeking support for public colleges and universities.

4. Recognition and Stewardship

Trustees along with foundation directors should thank people for significant gifts. Any such expressions should be coordinated with senior members of the foundation's staff to make certain all respect the wishes of certain donors who prefer "quiet" philanthropy and are embarrassed by too much attention. In recognizing preferences for low-key recognition or even anonymity, governing boards should resist knowing the names of all major contributors. However, some donors bask in recognition and acknowledgment. In anticipation of their wishes, the governing board should approve an inventory of campus-based "naming opportunities." Such opportunities include the minimum contribution necessary for naming a room, lecture hall, wing, or entire building after a donor. Minimum contributions also may be set in consultation with the foundation for endowing scholarships, professorships, and faculty chairs. The governing board should be well represented at events that provide public recognition for donors.

Ethical Issues and Procedural Concerns

Governing and foundation boards should agree publicly and in writing on what constitutes appropriate foundation activities, recognizing that the relationship will require an appropriate balance of foundation autonomy and governing board oversight. Governing board members must be aware that a few areas of foundation activity and practice have potential to cause irreparable harm to an institution or system's reputation. Foundations that abruptly change their mission or direction without consultation, approval, and perhaps more important, public disclosure; or use assets for inappropriate or illegal activities will face a media that is ready and anxious to report on any perceived or actual impropriety. Such unfavorable coverage invariably spills over and attaches itself to the foundation's host institution. Governing boards must carefully consider the policy and procedural guidelines for institutions and campus foundations, especially in view of some thorny ethical and legal questions. The policy guidelines and procedures for foundations should enable the governing board to review periodically the operation and activities of the foundation(s) serving in its name. The following issues are among those worthy of attention and consideration:

- Is the institution's long-term interest best served by allowing its foundation(s) to supplement the salary and benefits of the institution president, other senior officers, and perhaps athletic personnel? If the governing board determine that such support is essential, how should it be handled?

- Apart from salary, should unrestricted foundation funds be used to enhance the office of the president, including transportation, spouse travel, furnishings for residence and office, and entertainment? If such use is approved, how much is enough? How should such expenditures be reported?
- Should foundations provide support for an institution's athletics programs, even if these programs are not among an institution's fund-raising priorities?
- Should a gift from a donor with a questionable background be accepted by the foundation?

Dealing with the public-relations fallout for foundation activities that exceed its mission is a potential nightmare. The mere appearance that a foundation may be trying to hide something only exacerbates a potentially awkward situation. Media outcry is certain, and legislatures and state auditors are quick to join in to mandate "reform" if foundations are perceived to have violated their purpose or charter. Perhaps the best and simplest way to assess the propriety of a foundation's initiatives is the newspaper test: If reading about an initiative in the daily paper would have a detrimental effect on the foundation and the institution, don't do it. The possible reactions of donors and potential donors always must be of paramount consideration.

When a donor offers the foundation a gift that falls outside agreed-upon funding priorities, the governing board ultimately must decide whether it should be transferred to the institution. Gifts that call for special attention include real estate, animals, boats, cars, and gifts of appreciated property, as well as gifts likely to result in additional expenditures or other ongoing obligations. As Arnold Weber, former president of the University of Colorado and Northwestern University advised, "Be leery of a gift that eats."

Potential difficulties with gifts usually are avoided if the communication between the foundation staff and the president is healthy and productive. Unusual situations may be brought to the attention of the governing board for action, but policies adopted by the foundation and approved explicitly or implicitly by the governing board may obviate the need for any established "gift review" committee. Foundations are advised, for example, to have "planning and development" committees or "gift acceptance" committees (see Chapter 8) to protect the institution from unwanted or otherwise inadvisable gifts. Governing board members must keep in mind, however, that many types of gifts that are routinely acceptable to foundations generally are not sought or accepted by institutions in the absence of a foundation. Examples include gift annuities and closely held stock. Governing boards must not exclude automatically "acceptable" gifts that by law, policy, or past practice, would have been inappropriate for individual institutions or systems to accept. The foundation gives the institution greater flexibility in accepting gifts, and the governing board should not routinely limit the foundation's ability to do so. In the end, the test of acceptance should be premised on whether a gift will advance the institution's mission, reputation, and effectiveness, now or in the future.

Enhancing Communications

The complex responsibilities of governing boards and foundation boards, compounded by the gray areas that have potential for creating confusion, demand that higher education leaders spend appropriate time and energy on establishing effective means of cross communication. Communication practices between these voluntary boards can take any of several forms, or a combination of forms. The institution's president, the chairs of both boards, and the senior foundation staff officer have a direct bearing on the success of the communications environment between the boards.

Open and candid communications will strengthen the foundation's role and serve to protect its autonomy. It also helps to prevent the governing board from exerting too much control or otherwise dictating foundation activities. Obsessive control is a formula for failure. Individuals of stature will not accept appointment to a foundation board if they sense that the foundation is being exploited, or if they believe the foundation is impotent and without important prerogatives. In some situations, the increasing politicization of governing boards will have a negative impact on the relationships between the boards. In these cases, open communications is more difficult—sometimes nonexistent. Such situations make the mutually supportive roles of the president and the foundation's chief executive more significant and challenging. The several suggestions that follow will facilitate effective communications between the foundation and governing boards and resolve potential problems before matters get out of hand:

1. Appoint Governing Board Members to Serve on the Foundation Board

Recruiting members of the institution's governing board to serve on the foundation board is perhaps the most effective means of facilitating communications. However, this cross-board membership is most effective when it is intended to strengthen the relationship between the boards, not reduce foundation autonomy. The AGB/CASE survey indicates that nearly 46 percent of public institutions include one or more governing board members as voting members of the foundation board (see Appendix A). In states and institutions where no specific prohibition of such a practice exists, a limited number of governing board members serving on the foundation board (perhaps no more than two or three) is beneficial for facilitating effective communications between boards. Governing board members whose terms have ended also might be considered candidates for the foundation board. This strategy permits knowledgeable and experienced people to remain involved in and committed to the institution and its priorities. Regardless of their status as current or former governing board members, they should meet the qualifications required of all foundation directors. They should have personal influence and access and be willing to serve as advocates for private support by personal example through their own giving and through their willingness to identify, cultivate, and solicit donors. Conversely, appointment of former foundation board members to serve on the governing board may enable that board to benefit from the stature of those who have served the institution from the perspective of the foundation. The process of governing board nominations should not ignore the intrinsic value of foundation board members, despite the growing political nature of such nominations.

2. Establish a Governing Board Development Committee

Although a development committee of a public institution governing board may seem to be redundant of the foundation's role, it can be useful in evaluating funding priorities and fostering communications with the foundation board. The development committee should consist of about three governing board members who have expressed a commitment to the institution's fund-raising program. The committee should be staffed by the institution's chief advancement officer (who also may serve as the chief executive officer of the foundation). The committee can help to reinforce the fund-raising responsibilities of governing board members and perhaps can meet periodically with their counterparts on the foundation board and its development committee.

3. Share the Foundation's Annual Report with the Governing Board

The foundation's annual report should be shared and reviewed with all members of the governing board. The information contained in the report will provide an effective overview of the foundation's activities, a comprehensive list of donors, and a summary of the foundation's financial activities. In addition to the publicly distributed annual report, the governing board might request a more detailed review of the foundation's annual fund-raising activities to supplement the information provided in the printed report. If the foundation operates under an annual strategic business plan and/or a long-range plan, such reports also may be used to gauge performance. In reviewing activities for the governing board, the foundation might be guided by the following questions:

- Which of the institution's fund-raising priorities were well received by donor and prospects? Perhaps more important, which were not?
- What new initiatives are being recommended by prospects?
- Are the institution's mission and objectives building or expanding interest in the institution? Are they helping to expand the number of prospects and increase the number of new donors?
- Are current donors being persuaded to increase their levels of support?

Other questions may arise but the communications facilitated by the annual report and the oral summary provided by the foundation's chief executive or board chair will demonstrate the boards' mutual commitment to institution goals and will generate productive discussion about the practicality of current funding priorities.

4. Transmit the Foundation Audit Report and Management Letter to the Governing Board

Another approach to effective communications between the two boards is to provide the foundation's annual audit report and management letter to the institution's governing board. The audit will provide a detailed analysis of the foundation's financial activities and a statement regarding the foundation's financial management, which clearly can have an impact on donor relations and the institution's reputation.

While foundations may choose to make their audits available to the public in the spirit of openness (see Chapters 12 and 13), foundation leaders may be concerned that their autonomy will be compromised if the audit report—once made available to the governing board—is deemed to be part of the public domain and open to scrutiny by the public and the media. The degree to which this concern is valid depends mostly on state laws. Some states have broad statutes that force the disclosure of any records held by a public agency; other laws are phrased more conservatively, requiring public bodies only to reveal those records public entities are required to keep by law. Most, if not all, states have "open-records" laws, but the information the laws cover (and which, therefore, must be disclosed) varies greatly among states. Foundation leaders should be aware of the relevant state laws prior to determining how to proceed, and governing board members must be sensitive to circumstances that might imperil the foundation's legitimate need for privacy. (For additional discussion of document disclosure, see Chapter 16.)

5. Establish a Joint Planning Committee of Trustees and Foundation Board Leaders

A joint planning committee can contribute to a positive interboard relationship through periodic (two or three) meetings each year. The committee's agenda should emphasize a review of the institution's priorities and updates on how receptive donors are to those priorities. The committee, ideally comprised of the president, foundation chief staff officer, both board chairs, and development committees chairs, also may help plan for periodic, annual meetings or retreats of both boards. (Joint meetings should be scheduled more frequently during comprehensive campaigns to review priorities and assess the effectiveness of the fund-raising program.) System-wide foundations also should convene representatives of all foundations that serve the system's institutions especially but not exclusively, the foundation board chairs. Joint meetings—whether they are of the foundation and governing board or of all foundation boards—provide important opportunities for social events that facilitate informal communications among board members. Social occasions, particularly those held on campus, provide a clear reminder that the institution is everyone's primary cause and common bond.

An occasional retreat also offers both boards an opportunity to meet in a more relaxed setting. In these venues, governing board members and foundation volunteers and key administrators can engage in discussions that address the institution's long-range fund-raising plans and priorities. They also provide an ideal setting for discussing the important characteristics of comprehensive campaigns, including timing, priorities, organization, and structure. These informal discussions can help to "bond" volunteers to the institution's goals. Although sunshine laws may seem to discourage joint retreats with governing boards, experience suggests otherwise. Open-meeting laws should not be used as an excuse to avoid joint meetings.

Unique Issues Facing Systems

In some systems, individual campuses may have one or more foundations. In other systems, all fund-raising activities may be organized in a single foundation. Regardless of the structure, the complex relationships and communications challenges among foundations require considerable creativity. While variations exist, system governing boards usually set policies for foundation relationships along the lines of the following three models:

- decentralized—each institution or campus is served by at least one foundation that raises funds independently with little or no system coordination or policy guidance;
- centralized—a single foundation coordinates the fund-raising for all institutions in the system; and
- coordinated—campuses have independent foundations with at least some coordination, support services, and policy guidance from a central system foundation.

The decentralized model seems to be most prevalent. However, because individual campuses also may conduct broader advancement activities, the specific application of the models vary widely.

The system's governing body sets policies for all institutions in the system, despite their different missions and locations throughout the state. For the system's chancellor and the governing board, the foundation structure creates certain vulnerabilities and opportunities. Regardless of the model in place, the system governing board is responsible for establishing clear and balanced policies, protocols, and priorities that guide foundation activities. In doing so, the governing board and chancellor must take into account the history, mission, and special character of each institution or campus. Newer systems or systems that include institutions with successful fund-raising track records probably will want to preserve their ability to attract funds with minimal constraints. On the other hand, foundations with mixed track records may benefit from more detailed guidance and policy direction.

The real challenge in system structures is to avoid damaging a donor's loyalty to a particular institution. Alumni and other prospective donors give to institutions—not to systems. The systemwide goal should be to *enhance* the capacity of its campuses to attract private support, not to seem to discourage it. Imposing system governing board or systemwide foundation authority over campus-based foundations that have a long tradition of autonomy may be counterproductive. Systemwide foundations are less likely to be able to sustain the enthusiasm of their own volunteer boards and attract systemwide private support when the individual institutions of the system are independently and effectively raising private support. The value of maintaining a systemwide foundation should be weighed carefully in the context of its role and usefulness to the system and its institutions.

The geographic distances between campuses in large systems in sizable states and the infrequent direct contact between a system governing board and some of its campuses may create an environment in which a campus-based foundation board assumes the role of an institution "advisory board" or a quasi-governing board. In these cases, the amalgam of community leaders and other individuals of influence often takes on significant responsibilities in addition to fund-raising and asset management in an effort to enhance the institution's general well-being. The risks inherent in this scenario are that the foundation board will overstep its authority and tread on the prerogatives of the system governing board. While influential foundation board members can influence governing board actions positively, they should avoid any temptation to act as if the foundation board is, *defacto*, the governing board. Campus foundations must avoid any appearance of compromising priorities or policies that are integral to the overall system plan. Coping with the nexus of coordination and autonomy is an ongoing challenge for systemwide governing boards and campus-based foundations. Goodwill, consistent leadership, and common sense will keep everyone out of the minefield.

Today, the individual institutions in some systems indeed are served by local campus advisory boards or quasi-governing boards granted various levels of policy authority. In these settings, campus foundations may have the opportunity to address their principal responsibility with a greater degree of autonomy, depending on the level of the campus board's authority. A campus quasi-governing board, through authority delegated by the state or the system governing board, can more easily maintain a stronger relationship with its foundation. For this model to succeed, cooperation and flexibility must be demonstrated among the governance layers and between the campus foundations and the system administration. In the end, the personal relationships among the various boards, the individuals who serve on them, and their leaders are paramount to good donor relations. If the message is neither consistent nor well coordinated, or if board activities create controversy, negative news media coverage undoubtedly will follow.

With regard to planning periodic capital campaigns, a system board should reserve the right and opportunity to initiate periodically a systemwide campaign for the collective benefit of its constituent campuses. Such campaigns can enhance the public's understanding of and appreciation for the system in its service to higher education for the public good. However, system governing boards should not underestimate or abrogate the advantages of institution-centered campaigns. Once again, coordination and communications among institution and foundation leadership, the central office, and the system governing board are essential.

A Reflection

Opportunities are myriad for many forms and styles of relationships between governing boards and foundation boards. The success of any model is predicated on good, open, and frequent communications. In the end, the actions of good leaders through consistent leadership, enhanced by sensible and reasonable policies, make the difference. As long as everyone follows the tenets of sound policy, common sense, and mutual respect for one another's distinctive and complementary responsibilities, institutions and students will benefit.

Despite the growing challenges it faces, public higher education in this country remains the best hope that many citizens have for personal self-improvement and achieving productive and rewarding lives. As this century draws to its close, the importance of private support for public education cannot be underestimated. In many instances, private dollars determine public institution quality. The level of cooperation between governing boards and foundation boards on more than 1,000 campuses will dictate the levels of private support in the 21st century. Within these environments, the only competition should be that which is inherent to the rigors and demands of the pursuit of private philanthropy. ■

CHAPTER 16

At the Horizon and Beyond: Other Issues Worthy of Foundation Board Attention

David T. Shufflebarger

Beginning with the earliest discussions on the content of this handbook, the contributing authors were unanimous in their belief that it should address every major issue and topic relevant to the conduct of institutionally related foundations. The first outline identified 15 subjects that deserved extensive attention. Each is treated at length as a full chapter. The authors also realized that the book should address two additional kinds of information: (1) topics that did not warrant an entire chapter and (2) a small number of issues that are on the agendas of foundation-related conferences but are unresolved at the time of the release of this work. This final chapter was reserved for such topics.

While the book explores how existing foundations can be transformed from Level I to Level II or Level II to Level III, for example, this chapter discusses "sleeping" or dormant foundations. While an awakening holds potential for the good of the host institution, serious consideration should be given to determining if the foundation as originally configured is in good form and is the proper vehicle to serve a particular college or university. Once awake and operating, what potential exists for success for those foundations and others in the 21st Century, as all nonprofit entities anticipate the impending transfer of personal wealth at unprecedented levels?

Beyond the outlook for personal philanthropy, how will corporations and grant-making foundations respond in view of increasing competition for slower growing resources? How closely are these funders now monitoring the outcomes of charitable distributions? And what about sometimes thorny gifts or acquisitions? For example, should a foundation own patents and trademarks, compete with others in the campus community in operating enterprises and marketing memorabilia, or accept for management purposes state or federal research grants?

Further, no discussion of college and university foundations is complete without a look at the organizations that potentially are participants in the fund-raising process, including college and university systems, alumni associations, and athletic foundations. All can be partners in progress or cohorts for competition and confusion.

Finally, does a foundation create its own monsters or are all foundations stymied by outside regulatory or standards organizations that unwittingly or even cavalierly impose standards and procedures that the foundation officers and directors view as counterproductive or even potentially disastrous?

This short list is not exhaustive, but it does suggest that while many of the subjects in this handbook have been germane to foundations since 1891 (and continue to be relevant today) some additional issues are open ended and provide the bases for contemporary agendas on the campus and in wider forums.

The Dormant Foundation: Tasks Upon Awakening

Institutionally related foundations become dormant for a variety of reasons. In some cases, dormancy is caused by a change in personnel, particularly the institution's president, its chief development officer, or key volunteer leaders. In other instances, the foundation was "put to sleep" because of some controversy. In still others, the foundation never was active in the first place. Whatever the reason, a dormant foundation may represent a resource that ought to be awakened. In many cases, a foundation revived is preferable to starting anew, thus taking full advantage of previous goodwill and administrative and legal arrangements.

However, before undertaking this task, the host institution must be behind the effort solidly. The volunteers involved in starting over must be assured that such an undertaking is serious and institution administrators intend the foundation to be permanent.

That assurance should include avowed support from the institution's governing board or the system's board of trustees.

Legal counsel should advise where the foundation stands: Has its status as an incorporated entity or trust lapsed? If so, should it be revived or would it be more appropriate to start fresh? Does the foundation have any directors in place, even though they may not know it? If so, all current directors and key former directors should be queried to determine why the foundation lapsed and whether it should be revived. An agreement should be reached on how to fix what went wrong, whether it was controversy, poor staff support, administrative turnover, volunteer disinterest or dissatisfaction, or other reasons.

Additionally, volunteers should review the foundation's tax-exempt status, registration with the state, and its compliance with requirements for tax returns. This review may be facilitated through use of "A Basic Checklist for a College or University Foundation," found as Exhibit 1 in Appendix B. All relevant documents—articles of incorporation, trust agreements, bylaws, minutes, policies, and financial records—also should be gathered for review with counsel. This assessment also ought to determine if fiduciary obligations exist that need to be met, such as those for endowment funds, life-income agreements (for example, gift annuities), and payouts for scholarships, professorships, or other restricted funds.

Any current directors, the institution's president, and the chief development officer should create a formal written statement reporting where things stand and actions being taken to resolve any identified problems. The foundation's mission statement should be reviewed for possible alteration and a preliminary case statement should be drafted to help recruit volunteer leadership for the "new" foundation. As soon as possible, this leadership should establish goals and objectives for the foundation with the institution to establish a sense of shared ownership. These tasks ought to occupy the directors far more extensively than the mechanics of reawakening the foundation. While a few directors may need to focus on the operational details, most should be involved in recruiting others and developing and implementing a long-term fund-raising plan. That plan ought to be augmented by a few achievable, short-term objectives to give the trustees an early sense of accomplishment and overcome any lingering doubts about the viability and vitality of the new venture.

Assets Transfer in the 21st Century: Courting the New Philanthropy

During the next 10 to 15 years, America will experience the greatest intergenerational transfer of wealth in its history, variously estimated between $7 trillion to $9 trillion. As much as $3 trillion of that total is projected to be distributed to charitable bequests or trusts. At present, higher education is one of the leading recipients of planned gifts and if this opportunity is pursued astutely, public colleges and universities can be enhanced tremendously by this extraordinary transfer of assets.

Those institutions particularly well positioned for the future through long-range planning are the most likely beneficiaries. Such institutions will have earned the confidence of donors contemplating long-term investments because the institutions have clear visions and aspirations for the next century and plans for achieving them. Those colleges and universities that have involved their foundation volunteers and donors in the long-term planning process will fare well. Good planning, however, is not sufficient by itself. Tied to these plans must be a compelling case for private support and an exemplary record of stewardship. Equally important will be the involvement of dedicated volunteers willing to take leadership roles in seeking these "ultimate" gifts.

Every institutionally related foundation, regardless of size, should implement a major gifts program if it does not have one. This systematic effort will identify, cultivate, involve, and solicit those donors who are capable of making a significant difference in the future of an institution. Too many foundations do not have an ongoing major gifts program and focus only on annual giving, annual fund-raising events (such as golf tournaments), and an occasional special capital project such as the "purchase" of a seat in the auditorium or theater. Foundations are able to respond to this unrealized opportunity by adding, at minimum, a wills and bequests program.

Additionally, maturing development programs too often underuse more comprehensive planned giving techniques. Frequently, planned giving is regarded as "deferred giving," and accorded a low priority compared to programs that meet immediate needs. Consequently, implementation is put off indefinitely, despite many studies demonstrating it to be the most cost-effective form of fund-raising. More sophisticated foundations will add full-time staff who can encourage and manage "exotic vehicles," such as charitable remainder and lead trusts, charitable gift annuities, pooled income funds, and life-estate gifts.

In anticipating the influx of new and substantial philanthropy, foundation directors must accept the special fiduciary and stewardship responsibilities of planned giving, especially when the foundation serves as trustee for certain gift instruments. Managing life-income gift arrangements—charitable remainder annuity trusts and unitrusts, gift annuities, and pooled income funds, to name a few—is a complex undertaking that requires specialized legal, investment, and accounting skills. Larger institutions and foundations with well developed planned giving and investment programs often manage these gift vehicles. But many mid-size and smaller foundations will require outside assistance to satisfy payment, investment, accounting, and tax reporting responsibilities.

Fortunately, a number of financial institutions have responded to the growth in planned giving by establishing charitable gift management divisions in trust departments. These entities can serve as a foundation's agent in providing comprehensive services, including responsibility for making the regular (usually quarterly) payments to donors, investing the trust's funds, providing the required tax information to donors, and filing tax returns.

While many of the investment principles for endowed funds are similar to those for life-income gift arrangements, specialized investment issues materialize for the latter due to varying payout rates and other special aspects of these planned gifts. Sadly, some foundations have agreed to be trustees of such gift arrangements without securing appropriate legal and accounting advice. The results can be disastrous: defective gift instruments that jeopardize the gift, poor investment performance, missed or late payments to donors, inaccurate tax reports and returns (or, worse, none at all), and inappropriate payout rates unlikely to achieve the donor's gift objective. Such fiduciary failures can and should undermine donor confidence in the foundation's ability to be a good steward of planned gifts and can thwart even the best gift programs.

Foundation trustees and staff have a special responsibility to establish appropriate policies and procedures for the proper management of these important planned giving vehicles. Should serious questions arise concerning a foundation's ability to perform effectively in this area, the foundation ought to confine itself to wills and bequest programs until such questions are resolved. While life-income gift arrangements anticipate looming opportunities for future major philanthropy, such efforts should not be pursued if the foundation has not done its homework and is unprepared to be the recipient of the impending largess.

Accountability: The New Watchword of Foundations

Discussions with leading private foundation and corporate foundation presidents about institutionally related foundations repeatedly turn to accountability. All involved with institutionally related foundations—foundation directors, presidents, governing board trustees, and development staff—should be mindful of the need for accountability in dealing with private foundations and corporate contributions programs. One corporate foundation president predicted that public higher education soon will be scrutinized with the same intensity that public elementary and secondary education has received for the last decade. Many private and corporate foundations already exercise that level of scrutiny in dealing with institutionally related foundations. This scrutiny is prompted by the following criticisms:

- Foundation directors and staff who fail to ensure that follow-up reports on grants are submitted to the granting foundation. The institutionally related foundation leaves this responsibility to the institution, and the institution assumes that the foundation is taking care of the report. As a result, all too frequently, no report is submitted and the granting foundation has to push for the report when it is due, only to encounter much finger-pointing between the institution and its foundation.
- Foundation directors and staff who are not knowledgeable about endowment investing and appropriate spending policies. The resulting loss of purchasing power by the endowments is viewed as a gross breach of stewardship and fiduciary responsibilities.
- Foundation directors who are not knowledgeable about the institutions they represent, resulting in the pursuit of grants inappropriate to the institution's mission.
- Foundation directors who fail to ensure that the foundation maintains its focus on a clear-cut mission. The chairman and CEO of one the nation's major corporations advised a flagship university's foundation to focus on what it did best. A private foundation president voiced the concern that some institutionally related foundations have taken on a number of peripheral responsibilities for which they are not well suited. As a result, these distracted foundations often are not doing anything particularly well.

- Foundation directors and staff who fail to ensure that good grant monitoring procedures are in place. One state university related foundation was embarrassed when a corporate foundation detected that spending from a major grant was not in accordance with the grant budget. The corporate foundation was willing to consider revising the grant to work out an acceptable solution, but the university president determined that the best interests of the university and foundation would be served by returning the grant.

Risks and Rewards of Special Funding Endeavors

As institutions mature and research programs expand, foundations commonly face issues related to the management and ownership of intellectual property, patents, grants, and contracts. Because of the special responsibilities of these acquisitions, larger institutions sometimes have responded to such opportunities by creating a separate research foundation or corporation. Such decisions suggest that foundations primarily responsible for private fund-raising carefully consider these acquisitions before they take on activities that may exceed their expertise and divert their attention. Many small to mid-size foundations (assets of less than $25 million) may be wise to encourage their host institutions to explore other options for managing these activities. Often, the institution itself is in a better position to handle such matters.

When the institution places these responsibilities on an unprepared foundation either to gain greater flexibility or lighten its own workload, it puts the foundation in an untenable position. Before any such decision is made, institution and foundation officials should review relevant state, system, and institution policies carefully. In some states, foundations are precluded from managing research grants and contracts. Sometimes, government granting agencies will make grants only to the institution directly.

Similarly, owning patents and other intellectual property may be restricted to the host institution. For foundations able and willing to assume these responsibilities, the advice of expert counsel is essential to ensure that the institution and foundation have appropriate policies to deal with the legal issues of owning and managing copyrights and patents. This activity will involve new relationships with faculty who create such properties, and it requires close coordination with the institution's academic leadership to ensure compliance with faculty personnel policies. If properly managed, such arrangements can prove lucrative. Conversely, substantial legal expenses also can be incurred in protecting these property rights.

Foundations that manage federal, state, and local grants and contracts must understand the substantial obligations they are incurring on behalf of the institution. Those unfamiliar with requirements such as those of OMB 21 (Office of Management and Budget) and other federally promulgated restrictions and limitations should proceed with great caution. In all likelihood, managing such activity will require the addition of specialized staff. If the institution proposes that the foundation act only as fiscal agent and an institution official oversees the management of research grants and contracts, the foundation's directors ought to consider the liability they may be incurring. As a result, they may suggest that the institution manage the entire enterprise. Once again, the consequences of the foundation managing public money should be considered and addressed. Exemptions and exclusions might be available; if so, they should be pursued.

An increasingly significantly activity is licensing, especially the institution's marks, logo, and athletic symbols. Many firms have been started to provide marketing support to help an institution increase its income from licensing. For well-established institutions with regional or national name recognition and large numbers of alumni, licensing agreements can be an attractive revenue source. However, for institutions with more limited name recognition and fewer alumni, considerable effort can be invested in this enterprise with only a limited return. Foundations new to licensing should seek the advice of foundations that have successful programs in place. A good place to begin is with institutions that have nationally known athletic programs.

Whatever the endeavor in this overall area—grants and contracts, intellectual property, or licensing—foundation officials should be sure that a clear agreement detailing mutual responsibilities and liabilities is developed with the institution upfront to avoid confusion later.

Systems and Foundations

Institutionally related foundations can play a pivotal role in statewide systems. To serve its statewide mandate, the system board cannot be the advocate for any single institution nor should it assume a leadership role in fund-raising. The foundation boards throughout the system, acting with the system board, can constitute a powerful force on behalf of public higher education with the executive and legislative branches of government. They also can enhance the system's quality by securing private resources to complement public funds.

For such a partnership to be effective, institutions and foundations must "play by the rules" and adhere to system policies. This standard of deportment does not prohibit an institution and its foundation from suggesting changes in policies they perceive to be inadequate or inequitable. However, neither the institution nor the system is well-served when a foundation becomes the object of continuing controversy. Some systems have in place well thought-out policies for this relationship. Several states even have included such provisions in the state code. In other systems, few if any such policies and guidelines exist. While excessive regulation should be avoided, a clear policy statement on the role of foundations will enhance their relationship with the system. The system board should ensure that clear communications is a hallmark of its relationship with campus-based foundations.

For the most part, state systems focus on regulatory roles with foundations rather than on cooperative efforts to enhance the system by building stronger institutions through advocacy and philanthropy. System boards in some states have used foundations to help make real estate acquisitions or conduct facilities management when the system could not do so. At least one system tried to assist its institutions and related foundations by offering an opportunity to pool investments in an endowment fund. This arrangement offers many benefits, such as access to some of the best financial management firms for investment purposes, and is particularly attractive to smaller foundations. Similarly, a system-managed, pooled-income fund for smaller institutions more easily permits campus-based foundations to offer potential donors this planned giving vehicle.

One area in which foundations gain benefit from being in a system environment is tied to the system's advantage in advocating public incentives for private giving. Systems that have effective partnerships with institutionally related foundations are able to make substantial strides as advocates with executive and legislative branches of government, and as additional voices for philanthropy. While such partnerships are not easy to configure because of natural interinstitutional rivalries and aspirations, they are worth pursuing because of the ultimate benefits to the state's citizens. For example, in 1965 Virginia established the state-funded Eminent Scholars Program to match the income from endowments donated for distinguished chairs and professorships. A number of states have created similar or more extensive programs, but many (including Virginia) have experienced difficulty in maintaining state funding levels. Foundation directors are advised to determine the implications and procedures for accepting state matching funds, especially if safeguards need to be created to avoid commingling state dollars with private gift dollars.

Another area where cooperation may benefit foundations is in achieving consistency across campuses on such policy issues as minimum endowment levels for named scholarships, chairs, professorships, and structures (schools, buildings, wings, and rooms) on each campus.

A potential concern for system trustees is that the foundation board gradually may operate somewhat like a governing board if the system board is inattentive or an institution president is ineffective. Clear mission and policy statements describing the roles and responsibilities of foundation directors can help reduce confusion.

Natural Partners: Alumni Associations

Alumni associations have a rich and distinctive tradition of service to America's colleges and universities. Some are substantial, independent corporate entities in which leading alumni help create policies that shape and support their alma maters. Homecoming and reunions, despite their pageantry and visibility, may be only a small part of an overall program of activities that include maintaining a widespread chapter network; marketing a broad array of products such as institutional memorabilia, travel, affinity credit cards, insurance, and financial services; and playing key roles in legislative advocacy, student recruitment, continuing education, and career-development programs.

For most public institutions, alumni associations predate foundations. As such, the associations often have an historic role in raising funds from alumni. While this can be a strength on which to build, it sometimes competes with the alumni association's primary role of forging strong and enduring relationships with one of the institution's most important constituencies. Associations often depend on gift revenue to fund their own operations and to conduct a limited number of philanthropic activities such as scholarship programs. Sometimes these programs exist only because the initiatives started years ago and are of particular interest to a small, but vocal, group of alumni. Whether such activities are of priority concern to the institution often appears to be inconsequential.

While every institution has its unique historic relationship between its alumni association and its foundation, the relationships function best when they are based on the primacy of the institution's mission and operate in a spirit of partnership. Internecine rivalries, unfortunately fairly common, do nothing to advance the cause of higher education or the institution.

Thus, if the missions of the alumni association and foundation are not differentiated clearly (especially regarding fund-raising) and the relationships are ill defined, frequent problems likely will arise, leading to frustration, inefficiency, and failure. Since alumni associations and foundations depend so heavily on volunteer leadership and so many competing demands exist for good volunteers, both organizations need to be careful about allocating volunteer time for important causes, rather than wasting time and energy in turf battles. There are sufficient opportunities for both the alumni association and the foundation to provide the institution with a "margin of excellence" in its programs.

The differing missions of the alumni association and foundation often are defined as friend-raising for the former and fund-raising for the latter. This is, of course, simplistic. Alumni associations play a key role in fund-raising and foundations should focus on creating "friends" for the institution through cultivation activities that produce affinity between the institution and donors or potential donors. Add to those mutually supportive concepts the historic involvement of many alumni associations in fund-raising and the relationship can become, for better or for worse, quite complex. Most important, however, is that the institution, alumni association, and foundation work together to define the institution's goals for alumni involvement and philanthropic support, and to agree on how all entities will achieve the goals in an effective, mutually supportive partnership. The best partnerships are forged when all parties are working from positions of strength. Rarely is an institution well served when either the alumni association or the foundation is relegated to a secondary role.

Some alumni associations are financed to carry out program activities, but for many, sufficient operating revenue is a real concern. If institution leaders are considering consolidating all fund-raising in the foundation (including the alumni fund, which may have been a key revenue source for the association), the institution and foundation should work with the alumni association to determine adequate compensation for the loss of revenue. Some alumni associations' efforts have been impeded seriously when hit with this triple whammy: Support from the institution is reduced when state budgets are cut; the alumni fund is transferred to the foundation with no provision for a grant back to the association; and revenues from affinity credit cards, memorabilia sales, and the like accrue to the foundation. Foundation directors should remember that a well-defined plan for operating support is just as important for the alumni association as it is for the foundation. Further, it is in the institution's best interest. Rationally allocated revenues provide a solid basis for a harmonic and productive relationship among all three parties.

For the alumni association, dues may be an important component of support. If the dues program is new, however, the foundation may be required to provide some transitional support. Moreover, the organizations should develop clearly defined strategies to differentiate and coordinate dues appeals from annual-giving solicitations. Arrangements for operating the alumni fund are not as clear. There is no preferred way to structure the annual-giving program to benefit both organizations. In some cases, the alumni association maintains the alumni and parents funds and the foundation concentrates on major gifts, capital projects, and planned giving. In others, all annual giving is consolidated in the foundation. In a few cases where multiple foundations operate on a campus, annual giving is divided proportionately. Regardless of the final arrangement, the fund-raising program should be organized to support the institution's unique history and needs, and fund-raising decisions involve all interested and affected parties.

Record-keeping can become another problem area. On some campuses, alumni biographical data are kept separately from biographical data on parents and friends and from basic information on grant-making corporations and foundations. Disputes can arise concerning who "owns" what data, who ought to maintain it, and who should have access to it when. Again, most such problems should be resolved by determining what is in the best interests of the institution. Technological advances enable institutions to prevent or minimize such problems by enabling multiple users to gain access to data while protecting confidential data and limiting changes to files.

Good communications, so important to building trust, can be provided for in bylaws. These governance documents often stipulate that the president of the institution and the president of the alumni association serve the foundation as *ex officio* directors.

Some foundations also specify a number or percentage of alumni to serve as board members. Others simply work hard to ensure that a substantial number of able alumni are recruited for the board.

An effective partnership between an alumni association and a foundation offers opportunities for achieving savings and efficiencies. Some associations and foundations share accounting services when neither could afford an appropriate level of such support on its own. Similarly, many save on audit fees and insurance (liability and directors and officers). In cases where an alumni association has endowment funds, it may choose to pool these funds with the foundation or the institution to have access to highly successful fund managers who only accept funds of a certain size. Such arrangements also facilitate fee breaks through qualifying for fee levels open only to larger funds.

In the final analysis, the volunteers and staff of alumni associations and foundations who focus on advancing the institution's mission and goals will forge a powerful partnership and make a significant difference in higher education.

Special Concerns for Athletic Foundations

As college athletics have come under increasingly close scrutiny (particularly in last two decades) so have the activities of athletic foundations and associations. The National Collegiate Athletic Association (NCAA), for instance, has established audit guidelines requiring review of all athletic funds, including those from foundations. Similarly, regional accrediting bodies are beginning to include more rigorous reviews of athletic programs and associated foundations as part of the decennial institutional accreditation process.

As in the case of alumni associations, the well being of the institution is connected partly to its campuswide foundation's relationship with its athletic foundation or athletic association. One approach to foster a sound relationship is to operate under a single policy statement on philanthropic support adopted by the institution, campuswide foundation, alumni association, and athletic foundation. Such a policy can improve the coordination of major gift solicitations, centralized gift records, and the scheduling of appeals. Coordination prevents many disputes that typically arise between academic and athletic fund-raising efforts.

Corporate matching gift programs and athletics is an area that deserves special attention. Many corporate programs will not match gifts to athletic programs. The institution must take care to ensure that these restrictions are honored so this important source of gifts that support other areas of the institution is not jeopardized.

Athletic fund-raising is rife with misperceptions. Some volunteers, faculty, and staff involved in academic fund-raising believe that athletic fund-raising draws funds away from their efforts. While such examples most certainly exist, athletic fund-raising initiatives can open a window on the institution for a friend who might not otherwise have learned about the institution. Many people and corporations who first became involved in the institution through athletics later have become major donors to academic fund-raising initiatives.

As with alumni associations, the campuswide foundation and athletic foundation may realize significant savings and efficiencies through sharing accounting services, jointly bidding insurance and audit services, and exploring the potential benefits of pooled endowment funds.

Keeping A Wary Eye on Financial Accounting Rule Makers

Not all challenges, nuisances, and irritations facing a foundation originate with the host institution and its myriad constituencies. Others materialize from unexpected sources and from agencies and organizations with little concern for the intricacies of fund-raising responsibilities. One of the most recent manifestations of this phenomenon originates with an organization with a self-imposed mandate for promulgating the rules governing financial accounting practices. The Financial Accounting Standards Board (FASB) is proposing certain interpretations of its accounting standards that if strictly adhered to by college and university foundations, could make them empty financial shells with no purpose except to serve, on ledger paper at least, as "pass through" organizations or agents for the institutions served.

Admittedly, the nuances of accounting can be a challenge to those who are not intimately familiar with the subtleties of financial statements. Foundation directors face at least these two major challenges: First, many directors from the business world are conversant with profit-and-loss statements but unfamiliar with the fund-accounting practices that institutions and other not-for-profit organizations historically have used. Second, the accounting practices of the foundation—a not-for-profit entity—are governed by FASB, but the accounting practices of the institution—a public entity—are governed by the Governmental Accounting Standards

Board (GASB). Numerous differences exist between the two boards, including the way they require financial statements to be presented. These differences can cause confusion in transactions between the two organizations, making comparisons between financial statements difficult at best. Other policy issues may arise if a state auditor attempts to require public colleges and universities to include the assets of their foundations and alumni associations in a consolidated statement without adequately considering the independent nature of these organizations. GASB has issued policy drafts that at times have clouded rather than clarified the issue of consolidation.

Recently FASB completed a major project designed to improve the financial statements of not-for-profit organizations and to clarify the recording of pledges and contributions with the issuance of its *Statement of Financial Accounting Standards (SFAS) 117, Financial Statements of Not-For-Profit Organizations, and SFAS 116, Accounting for Contributions Received and Contributions Made*. Except for a one-year delay granted to some smaller organizations, the documents govern financial statements for fiscal years beginning after December 15, 1994. One goal of SFAS 117 is to enable those familiar with profit-and-loss financial statements typical of the business world to understand the financial statements of not-for-profit organizations, including higher education foundations. While this result may be achieved, considerable confusion is inherent to the transition.

Indeed, foundation officials also are concerned by a subsequent effort by FASB to clarify SFAS 116. In *Transfers of Assets in Which a Not-For-Profit Organization Acts as an Agent, Trustee, or Intermediary*, FASB seems to suggest that institutionally related foundations function as agents of a college or university, and thus should not record contributions as gift revenue on the presumption (erroneous as it may be) that the gifts will be transferred to the institution. Enforcement of this standard essentially ignores the fact that foundations are independent entities with separate not-for-profit tax rulings. The Council for Advancement and Support of Education (CASE) has led a spirited debate with FASB concerning this issue in an effort to prevent financial statements of foundations from becoming distorted or compromised. The situation is further complicated by the fact that under the GASB standards applied to public colleges and universities, no principle exists for accounting for the "agency" status of foundation revenues. If FASB rules are enforced for foundations and GASB rules for institutions, the foundation's assets conceivably could disappear. The matter was still in dispute as this book goes to press.

In March 1996, FASB issued SFAS 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. This release likely will have a significant effect on the way many foundations present their financial statements relating to investments and resulting income. Because FASB is noted for its intractability, foundation directors have a duty to familiarize themselves with these issues and to speak out firmly when they believe that the best interests of their foundations, their donors, and their institutions are not being served. ■

An Afterword

"Do universal rules exist for creating a successful institutionally related foundation?" This question was advanced by Royster Hedgepeth early in Chapter 2. His answer: "No." In Chapter 9, Curt Simic and Barbara Coffman ask this: "Can an accurate and dependable figure be derived for return on investment [in fund-raising], one that is useful both to the institution and its foundation, and one that facilitates comparison with other similar organizations?" The answer in this case is "Yes" and "No." The "Yes" depends on the steadfast application of uniform internal norms. The "No" cautions: "Too many variables affect an organization's costs and gift income to make comparisons easy or valid."

On the matter of uniform or generic written agreements between college and university foundations and the host institutions, Tom Popplewell in Chapter 10 says "Because of the differences in educational philosophy, the various roles that foundations assume from one institution to the next, and the regulatory and statutory differences among states, development of a simple, generic agreement is not practical." He insists that a sound agreement is the product of consensus arrived at on a given campus, and that "without consensus the agreement becomes a worthless document..." Tom retains his insistence to the point of agreeing only reluctantly and with serious reservations to including in the appendicies of this handbook two sample agreements—one basic, the other comprehensive.

Three chapters later, Marguerite (Peg) Brown comments at length on litigation and foundations and offers the reader a sampling of disparate court rulings involving foundations in the areas of privacy and disclosure. Not so apparent in this presentation is a finding by Peg in a much longer document on which her chapter is based. Her doctoral dissertation at the University of Connecticut (an institution that in the past has drawn the curiosity of the media and the state vis-a-vis its foundation operations) sought to determine if any set of factors or characteristics of foundations involved in litigation made more likely litigation involving foundations with the same or similar characteristics. Her conclusion was that neither size of the board, size of assets, geographical location, nor any other common feature could be used to predict a foundation's vulnerability to legal challenges and lawsuits. The single most important factor is the way a foundation behaves.

Not that commonalties do not exist. John Guy and David Bahlmann suggest investment policies and procedures that might be referenced by any foundation with assets sufficient to warrant the application of the guidelines and the investment performance yardsticks. Indiana University of Pennsylvania Foundation Directors Anthony Kuzneski and Larry Panaia describe the characteristics of "good board members" and offer suggestions for board policies and productive activities generally germane to the majority of foundations. Barbara Keener's advice to community college foundation officials recites formulas for success. Gary Ransdell describes behavior standards for foundations that may be applied or ignored at a foundation's peril. Tom Meredith in his president's perspective offers a list of specific "dos and dont's." David Shufflebarger provides us with a "Basic Checklist" that facilitates a "health status evaluation" for a college or university foundation in our contemporary society. And finally Rick Legon, the representative from the handbook's chief sponsor, the Association of Governing Boards of Universities and Colleges, suggests for the first time how governing boards of public institutions might view foundations within the contexts of single-institution governance and system configurations. He further suggests how governing board members can, or even should, become involved in the fund-raising process.

Despite Gary Ransdell's confidence in "the weaving of public and private themes found throughout [foundation and institution] partnerships, "Hedgepeth, Martin, Lippencott, Shufflebarger, and Phelan underscore that while foundations may fall into four broad classifications, such entities are better described along a continuum that in theory, at least, might be as wide as the one thousand or more foundations represented. Just as no two institutions of higher education are alike, neither are any two institutionally related foundations identical.

Does this disparity excuse foundations from comparisons to others in evaluating success. I would suggest for the most part the answer is "Yes." Royster Hedgepeth might agree when he says in Chapter 2, "While the common elements contributing to success can be identified [the right people, within sound structures, performing in appropriate ways], the application for each institution is an individual matter." Foundation critics often take some satisfaction in comparing one foundation's performance to another that, in the eye of the beholder, appears to be identical or similar. A friend of mine recently was caught up in responding to a report critical of a foundation for its apparent failure to garner sufficient (by comparison) corporate support in an eastern state where 93 percent of the existing companies are family owned and the majority of those companies are of the "mom and pop" variety. When I asked her about the basis for comparison, she shared with me published national statistics that served the foundation's tormentor's as the basis of criticism. I looked at the data and asked: "Does your critic realize that the University of Utah is included in this study? If so, he should also be insisting that your foundation (by comparison) secure a million or more dollars in religious support."

What, then, is a logical measure of success for a given foundation? By focusing on individuality and uniqueness the answer becomes clear. Given that (1) the institution decides the level of responsibility and corresponding autonomy to be assigned to the foundation (Hedgepeth); (2) the foundation exists only to serve that institution (Popplewell); and (3) the institution defines the fund-raising priorities for the related foundation's pursuit (Legon), the most important measure of success is a comparison of an institution's agreed-upon needs and the progress toward satisfying those needs.

More recently as this handbook was nearing its completion, I called the University of New Hampshire Foundation to confirm a few facts on that entity that appear from time to time in this work's pages. I spoke with Emily Smith, the woman I recruited in 1989 to serve in the new foundation as a vice president in charge of internal operations. When she answered the telephone she said rather breathlessly, "I've just gotten out of the last meeting for the formulating of our second long-range plan."

"How did the first one come out?" I asked. The foundation board had put the first plan together in 1991 to cover the fiscal years 1992–1996, inclusive. The funding priorities underlying the plan had been developed by university Provost Walter Eggers with the approval of the then university President Gordon Haaland. Almost all priorities were targeted on the university's academic program.

"Well," she answered, "it looks like $12 million this year, and if we do that, we'll exceed all of the plan's funding objectives. We've got $18 million in the foundation's endowment, and the university's endowment has increased by more than 70 percent. We have

22 endowed professorships [where there were six], and four endowed faculty chairs [where there was one]. Did you see the bit about us in *Connection*?"

"No," I said, "who publishes it?"

"The New England Board of Higher Education. According to *Connection*, in 1994 the University of New Hampshire and its foundation led all of the public institutions in New England in fund-raising, and we were 71st among publics in the whole country. And remember, we weren't in a capital campaign. I guess my only niggling disappointment is that we won't quite satisfy Gordon's dream."

"What was it?" I asked, not remembering my former president's personal ambitions for private support.

"Both you and Gordon thought the university should have $1 million in endowment for each year of the university's existence. Remember the centennial in 1993?"

"Oh, sure," I said, "that crazy slogan, '100 for the One Hundredth.' Thank God we never had to use it. How close to Gordon's dream did you come?"

"Well," Emily replied, "we started out five years ago with the $35 million the university raised during its first 98 years, and today we have about $78 million in combined endowments. All in real money."

"Close enough, Emily," I said, "close enough for nongovernment work."

Appendix A

Foundation Survey Results

In Winter 1995, the Association of Governing Boards of Universities and Colleges (AGB), in cooperation with the Council for Advancement and Support of Education (CASE), mailed a comprehensive survey to public college and university foundations to gather information on foundation boards. The survey was sent to 827 two-year and four-year college and university foundations. Useable responses were received from 482 foundations, a response rate of 58.3 percent. Responses were received from 252 foundations affiliated with two-year institutions, 196 affiliated with four-year colleges and universities, and 34 that identified themselves as affiliated with multicampus college and university systems.

Since this is the first known detailed survey of the characteristics and duties of institutionally related foundation boards, a large number of questions went unanswered and are reported as "no answer" in the results. Obviously, many respondents did not have access to or had not gathered some of the data requested in the survey. Despite this, only one question and subparts of four others were found to be unusable. What has been reported provides a useful, in-depth profile of foundation boards, including their organization, policies and practices, involvement in fundraising, and relationships to staff, institutional governing boards, and host institutions.

The results have been disaggregated for many of the questions for two-year and four-year institutionally affiliated foundations. Thirty of the 34 multicampus system foundations exclusively serve four-year institutions within the system or two-year feeder campuses to the parent campus. The remaining four multicampus foundations serve two-year campuses exclusively. When results were disaggregated between four-year and two-year institutions, we have split the multicampus responses. Thus disaggregated results begin with a total of 256 two-year foundations and 226 four-year institution foundations.

The survey questions and the results that follow are divided into five major areas: (1) general questions, (2) the foundation chief executive and staff, (3) the characteristics, structure, and policies and practices of the foundation board, (4) relationships and processes between the university or system governing board and the foundation board, and (5) fund-raising control and participation.

This survey is a supplement to the CASE survey conducted in 1993 that explored numerous issues regarding foundation characteristics and operations. The 1993 survey serves as a rich source of data for CASE's National Clearinghouse for Institutionally Related Foundations.

I. General Questions

1. Who does your foundation serve?

	Number	Percent
Four-year institution	196	40.6%
Two-year institution	252	52.3%
Multicampus	34	7.1%

2A. Does the institution have more than one independent foundation?

	Number	Percent
Yes	68	14.1%
No	408	84.6%
No answer	6	1.2%

2B. If yes, is there any office or process by which they are centrally coordinated or controlled?

Total: 68	Number	Percent
Yes	49	72.1%
No	19	27.9%

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2C. If yes, please describe:

Total: 49	**Number**	**Percent**
Same staff	9	18.4%
President's Office	5	10.2%
Advancement Office	15	30.6%
Research Foundation	2	4.1%
Other	23	36.7%

Only 14.1 percent of respondents reported that the parent institution has more than one independent foundation. For those 68 that have more than one foundation, the vast majority are centrally coordinated or controlled (49 of 68 or 72.1 percent). The most common response was that they were largely staffed out of the same offices.

3. Would you describe your foundation as passive (receives, manages and distributes funds from the institution as its only activities) or active (identifies, cultivates, and solicits potential donors in addition)?

	Number	**Percent**	**Four-year**	**Percent**	**Two-year**	**Percent**
Passive	80	16.6%	43	19.0%	37	14.5%
Active	391	81.1%	182	80.5%	209	81.6%
No answer	11	2.3%	1	0.4%	10	3.9%

The vast majority of foundations affiliated with two-year and four-year institutions listed themselves as active foundations, engaged in both fund-raising and asset management.

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4. What was the market value of assets (including endowments) managed by your *foundation* in the most recently completed fiscal year?

	Number	Percent	Four-year	Percent	Two-year	Percent
Less than $1 million	146	30.3%	18	8.0%	128	50.0%
$1 million to $9.99 million	216	40.8%	103	45.6%	113	44.1%
$10 million to $24.99 million	46	9.5%	40	17.7%	6	2.3%
$25 million to $99.99 million	46	9.5%	46	20.4%	0	–
$100 million or more	19	3.9%	19	8.4%	0	–
No answer	9	1.8%	0	–	9	3.5%

The vast majority of foundations responding to the survey (362 or 75 percent) reported managed assets of under $10 million, not surprising since the majority of foundations responding to the survey were affiliated with two-year institutions and regional colleges and universities. Only six two-year institutions report foundation assets greater than $10 million.

5. What was the *institution's* or *system's* total operating budget in the most recently completed fiscal year?

	Number	Percent	Four-year	Percent	Two-year	Percent
Less than $4.99 million	56	11.6%	13	5.8%	43	16.8%
$5 million to $9.99 million	53	11.0%	9	4.0%	44	17.1%
$10 million to $24.99 million	113	23.4%	25	11.1%	88	34.4%
$25 million to $49.99 million	76	15.8%	35	15.5%	41	16.0%
$50 million to $99.99 million	65	13.5%	46	20.3%	19	7.4%
$100 million to $199.99 million	36	7.5%	35	15.5%	1	0.3%
$200 million to $399.99 million	28	5.8%	27	11.9%	1	0.3%
$400 million to $799.99 million	10	2.1%	10	4.4%	0	-
$800 million to $1.2 billion	6	1.2%	5	2.2%	1	0.3%
More than $1.2 billion	10	2.1%	10	4.4%	0	-
No answer	29	6.0%	11	4.8%	18	7.0%

The vast majority of responses listed institutional operating budgets of under $100 million. The larger budgets, approaching or exceeding $1 billion, include some of the nation's larger multicampus systems.

II. Foundation Chief Executive and Staff

1A. Does the foundation chief executive also serve in a dual capacity as a development officer employed by the institution or system?

	Number	Percent	Four-year	Percent	Two-year	Percent
Yes	313	64.9%	151	66.8%	162	63.3%
No	156	32.4%	74	32.7%	82	32.0%
No answer	13	2.7%	1	0.4%	12	4.6%

Nearly two-thirds of foundation executives wear two hats. They are foundation employees and university employees in both the two-year and four-year sectors.

1B. If yes, does person have a dual title?

Total: 313	Number	Percent	Four-year (151)	Percent	Two-year (162)	Percent
Yes	246	78.6%	130	86.1%	116	71.6%
No	60	19.2%	19	12.6%	41	25.3%
No answer	7	2.2%	2	1.3%	5	3.1%

Nearly 80 percent of those serving in a dual capacity (246 out of 313) reported that they held dual titles, one for the university and one for the foundation.

1C. If no, is executive 100 percent employed by the foundation?

Total: 156	Number	Percent
Yes	44	28.2%
No	62	39.7%
No answer	50	32.0%

2. When serving in the capacity of foundation chief executive, to whom does he or she directly report? (Check all that apply.)

	Number	Percent	Four-year	Percent	Two-year	Percent
Foundation board	295	61.2%	167	73.8%	128	50.0%
Institution or system chief executive	212	44.0%	78	34.5%	134	52.3%
Vice president of the university or system	43	8.9%	25	11.1%	18	7.0%
Governing board	11	2.3%	2	.09%	9	3.5%
Other	7	1.5%	5	.02%	2	0.3%

Reflecting the dual titles and roles foundation chief executives play, the reporting relationship displayed above is not surprising. Institutional chief executives were listed as the second highest category.

3. How many years has the executive held his or her position with the foundation?

Executives have held their positions an average of 5.5 years. There were no significant differences in the average tenure in the executive position between four-year and two-year institutions.

4A. Who reviews the foundation executive's performance?

	Number	Percent
Institution or system chief executive	213	44.2%
Foundation board	193	40.0%
Vice president of institution or system	56	11.6%
No answer	25	5.2%

4B. If the foundation executive serves in a dual capacity, is a performance review for foundation responsibilities done separately from a review for university responsibilities?

Total: 313	**Number**	**Percent**
Yes	64	20.4%
No	200	73.9%
No answer	49	7.2%

One can presume that some joint performance reviews by the president (or vice president for advancement) and the foundation board are held, especially for executives in dual positions. Separate reviews, however, appear the exception in part 4B, not the rule.

5. Does the foundation pay its own full-time staff?

	Number	**Percent**	**Four-year**	**Percent**	**Two-year**	**Percent**
Yes, all	95	19.7%	68	30.0%	27	10.5%
Yes, in part	112	23.2%	61	26.9%	51	19.9%
No	249	51.7%	90	39.8%	159	62.1%
No answer	26	5.4%	7	3.1%	19	7.4%

A total of 207 foundations (42.9 percent) reported paying all or part of their staffs' salaries. A much larger percentage of four-year institution foundations do so than two-year foundations.

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III. Profile, Characteristics, Structure, and Policies and Practices of the Foundation Board

Membership:

1. How many voting members are authorized to serve on the foundation board?

The average number of voting foundation board members was 27. The range was from 4 to 251. The majority of respondents (53 percent) indicated boards between 15 and 30 voting members.

2A. Is the institution's or system's chief executive an ex officio member of the foundation board?

	Number	Percent	Four-year	Percent	Two-year	Percent
Yes, voting	232	48.1%	108	47.7%	124	48.4%
Yes, nonvoting	181	37.6%	81	35.8%	100	39.1%
No	43	8.9%	30	13.2%	13	5.0%
No answer	26	5.4%	7	3.1%	19	7.4%

Presidents sit on the boards of 413 of the 482 (85.7 percent) responding foundations, with no significant difference between two-year and four-year institution foundations.

2B. Do any other university or system executives sit on the foundation board ex officio?

	Number	Percent	Four-year	Percent	Two-year	Percent
Yes	257	53.3%	131	58.0%	126	49.2%
No	191	39.6%	85	37.6%	106	41.4%
No Answer	34	7.1%	10	4.4%	24	9.3 %

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2C. If yes, which ones?

Total: 257	Number	Percent
Chief business officer	101	39.3%
Chief of development	62	24.1%
VP for academic affairs/ chief academic officer/provost	37	14.4%
Trustee representative/ member of board	18	7.0%
VP university relations	16	6.2%
Treasurer	16	6.2%
Executive vice president	15	5.8%
Executive director	13	5.0%
Alumni/alumni officer	11	4.3%
Faculty representatives	10	3.9%
Chair of governing board	7	2.7%
Campus dean	6	2.3%
VP student services	4	1.6%
Other	35	13.6%

The 257 foundations answering in the affirmative in 2B gave the above response. Most commonly listed was the chief business officer, whose office may be performing many of the business functions of the foundation under an operating agreement or memorandum of understanding. If one combines the respondents' answers of vice president for university relations, chief of development, executive director, and executive vice president as one category, (those individuals with primary responsibility for foundations operations), the number of institutions with such ex officio members becomes the second highest category at 106 (41.2 percent). A number of foundations have more than one such individual on the board.

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3. Is the foundation chief executive a voting member of the foundation board?

	Number	Percent	Four-year	Percent	Two-year	Percent
Yes	165	34.2%	82	36.3%	83	32.4%
No	280	58.1%	135	59.7%	145	56.6%
No answer	37	7.7%	9	4.0%	28	11.0%

4. How many years has the current foundation board chair served in that capacity?

Current chairs served an average of 2.27 years in that position, with the vast majority serving one to six years. The range was 1 to 28.

5A. Do members of the institution or system governing board serve on the foundation board?

	Number	Percent	Four-year	Percent	Two-year	Percent
Yes, as voting members	220	45.6%	90	39.8%	130	50.8%
Yes, as nonvoting members	49	10.2%	16	7.1%	33	12.9%
No	185	38.4%	112	49.5%	73	28.5%
No answer	28	5.8%	8	3.5%	20	7.8%

A total of 269 respondents (55.8 percent) reported that governing board members sit on the foundation board. The numbers and percentages are higher in the two-year sector.

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5B. If yes, which ones?

Total: 292	Number	Percent
Chair of the governing board	86	29.5%
Regular trustee member elected or appointed by governing board	175	59.9%
Officer of the board	7	2.4%
President	6	2.0%
Faculty representative	6	2.0%
Vice chair of board	5	1.7%
Student representative	2	.07%
All/any	5	1.7%

More than one institutional governing board member sit on the foundation board at some institutions.

5C. If no, are they precluded from doing so by state law?

Total: 185	Number	Percent	Four-year (112)	Percent	Two-year (73)	Percent
Yes	14	7.6%	10	8.9%	4	5.5%
No	143	77.3%	87	77.7%	56	76.7%
No answer	28	15.1%	15	13.4%	13	17.8%

Responses indicated that governing board members, if not prohibited by state law, were prohibited by the college or university system or by the bylaws of the foundation.

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6. Other than, or in addition to, the institution or system governing board and executive and the foundation chief executive, do your bylaws require that any of the board's voting members come from designated constituencies or be ex officio members?

	Number	Percent	Four-year	Percent	Two-year	Percent
Yes	191	39.6%	122	54.0%	69	27.0%
No	279	57.9%	96	42.5%	183	71.5%
No answer	12	2.5%	8	3.5%	4	1.6%

If yes, please identify:

Total: 191 **Position**	**Number (of Institutions)**	**Percent**
Alumni	95	49.8%
Faculty /deans	35	18.3%
Students	24	12.6%
Senior administrator	19	9.9%
Member of athletic booster club	15	7.9%
Community member	8	4.2%
Other	40	21.0%

Nearly 40 percent of foundation boards hold seats for designated constituencies, often more than one constituency. For boards that do hold seats, alumni are by far the largest constituency.

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7A. Do current members of the foundation board select new voting members of the board (excluding ex officio members)?

	Number	Percent	Four-year	Percent	Two-year	Percent
Yes	432	89.6%	203	89.8%	229	89.5%
No	43	8.9%	20	8.8%	23	9.0%
No answer	7	7%	3	1.3%	4	1.5%

7B. If no, who selects new members?

Number: 43	Number	Percent
Institutional governing board	8	18.6%
President of college	8	18.6%
Foundation executive	6	14.0%
Other	9	2.1%
No answer	12	27.9%

Not surprising is the fact that the vast majority of foundation boards are "self-perpetuating;" that is, they nominate and select new members for vacancies.

8. What is the single length of term for foundation board members?

The average length of term for foundation board members is 3.11 years. Two-thirds of the respondents listed three years on the survey. The range was from one to nine.

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9A. Is there a limit on the consecutive terms a board member may serve?

	Number	Percent	Four-year	Percent	Two-year	Percent
Yes	176	36.5%	103	45.6%	73	28.5%
No	301	62.4%	119	52.6%	182	71.1%
No answer	5	1.0%	4	1.8%	1	0.4%

9B. If yes, what is the maximum number of terms?

Total: 176 Number of terms	Number of foundations	Percent
2	119	67.6%
3	34	19.3%
4	5	2.8%
5	1	0.5%
6	4	2.3%
7	0	–
8	0	–
9	2	1.1%
10	1	0.5%
No answer	4	2.3%

9C. When are board former members eligible for reelection to the foundation board?

	Number	Percent	Four-year	Percent	Two-year	Percent
Never eligible	9	5.1%	5	5.2%	4	5.1%
After waiting period	140	79.5%	78	80.0%	62	78.4%
No answer	27	15.3%	14	14.4%	13	16.5%

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In sharp contrast to most public university governing boards, most foundation boards—more than 60 percent—do not have term limits for members. For those that do, the majority (119) limit members to two terms. However, as answers to part 9C indicate, nearly all foundation boards with term limits allow members to seek reelection to the board after a waiting period. For 124 respondents, the waiting period before being eligible for reelection to the board was two years. The remainder of the respondents indicated one-year, three-year, and four-year waiting periods.

10. Please describe the foundation board's voting membership.

All 482 respondents answered question 10. Keep in mind that foundation boards have a mean of 27 members, but that not all of the numbers in each of the following tables will total 27, indicating that background information on every member was not known and not reported on the survey.

Gender	Mean
Number of male members	19.55
Number of female members	6.28

Not surprising is the fact that there are far more males on foundation boards than females.

Race	Mean
White	22.60
African American	1.41
Hispanic	.24
Native American	.03
Asian American	.15
Other	–

Foundation boards average more than 22 members who are white; fewer than two are African American; only one in 400 is Hispanic (although 66 foundations have two or more members); only 33 Native Americans are identified among all foundation boards; and only 60 Asian-American are identified.

Highest level of formal education (number)	Mean
Professional degrees	3.21
Advanced degrees	4.27
Bachelor's degree	8.98
Associate's degrees	.45
High school diploma	.96

Foundation boards average more than three members who have professional degrees; more than four members who have advanced degrees (master's, doctorates), and nearly nine members with bachelor's degrees. Most boards have fewer than one member with an associate's degree or a high school diploma.

11. Primary Occupation

How many board members are involved in each of the following as a primary vocation? Please count each board member only once.

All 482 respondents answered question 11. Keep in mind that foundation boards have a mean of 27 members, but that the numbers for the five categories will not total 27 (they total 23.62), indicating that occupation information on every member was not known and not reported on the survey. The responses indicate that people with wide-ranging backgrounds serve on foundation boards. The largest number of people have come to the foundation board with backgrounds in the business community.

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Business	Mean
Executive of a large business	4.02
Executive of a banking, financial, insurance, or real estate company	3.35
Executive a small business	4.83
Other	.49

Education	Mean
Officer/administrator of a higher education institution	1.18
Faculty member within higher education	.46
Full-time student	.10
Teacher/administrator of a primary or secondary school	.27
Other	.07

Retired	Mean
Corporate or financial officer	1.57
Educator	.80
Professional	.80
Other	.43

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Other	Mean
Accountant	.49
Dentist	.15
Lawyer/Law partner	1.61
Physician	.45
Psychologist	.01
Social Worker	.03
Other	.16
Administrative officer/ executive of a nonprofit foundation/organization	.39
Artist/writer/musician	.06
Clergy	.05
Government official, elected	.21
Government official, nonelected	.17
Farmer/rancher	.24
Homemaker	.77
Journalist	.10
Judge	.09
Labor official	.02
Other	.25

12. How many board members also serve in any of the following capacities?

Member of governing board of another college or university	.77
Member of a board of a corporation	3.38
Board member or executive of nonprofit organization	4.45

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Board and Committee Structure:

13. How many times has the board met within the past 12 months?

Foundation boards met just over an average of four times during the past year (*mean*: 4.13). The range was one to 12.

14. The attendance at board meetings averages ___ percent of total board members.

Attendance at meetings averages *70 percent* of the total board members.

15A. Are meetings of the full foundation board required to be open to the public?

	Number	Percent
Yes	96	19.9%
No	187	38.8%
No, but meetings are voluntarily open	186	38.6%
No answer	13	2.7%

15B. Are meetings of the foundation board committees required to be open to the public?

	Number	Percent
Yes	60	12.4%
No	242	50.2%
No, but meetings are open voluntarily	164	34.0%
No answer	16	3.3%

The respondents answering yes to parts 15A and 15B may live in states where legal decisions have rendered the foundation a public body or subject to the state's open meetings statutes.

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16A. Does the board of the foundation have an executive committee?

	Number	Percent	Four-year	Percent	Two-year	Percent
Yes	419	86.9%	207	91.6%	212	82.8%
No	54	11.2%	17	7.5%	37	14.4%
No answer	9	1.9%	2	0.8%	7	2.7%

16B. If yes, how many times has it met within the past 12 months?

Executives committees met an average of *3.68* times over the past year. No significant differences were reported by two-year and four-year institutions.

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17A. Check which of the following additional committees the board has.

Committee	Number	Percent
Finance and investment management	425	88.1%
Nominating/membership	395	81.9%
Development	310	64.3%
Audit	117	24.2%
Scholarship	61	12.7%
Social events/special events	41	8.5%
Public and community relations	41	8.5%
Grants and awards	39	8.1%
Property management/real estate	31	6.4%
Alumni giving	29	6.0%
Strategic/long term planning	27	5.6%
Bylaws	20	4.1%
Marketing/advertising	12	2.5%
Gift acceptance/donor recognition	9	1.9%
Personnel	7	1.5%
Policies	6	1.2%
Projects and resources	5	1.0%
Golf	5	1.0%
Art and culture	5	1.0%
Other	62	12.9%
No answer	28	5.8%

The vast majority of foundation boards have a finance and investment management committee and a nominating/membership committee.

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17B. Do any foundation board committees include individuals who do not serve on either the foundation or governing board (excluding foundation or university personnel)?

	Number	Percent	Four-year	Percent	Two-year	Percent
Yes	145	30.1%	67	29.6%	78	30.4%
No	308	63.9%	150	66.4%	158	61.7%
No answer	29	6.0%	9	4.0%	20	7.8%

17C. If yes, which ones:

Committee	Number	Percent
Finance and investment management	32	22.0%
Development	30	20.7%
Nominating	30	20.7%
Special events	18	12.4%
Planned giving advisory groups	17	11.7%
Scholarship	10	6.9%
Alumni giving	6	4.1%
Public relations	5	3.4%
Strategic/long term planning	4	2.8%
Property management/real estate	3	2.0%
Budget	2	1.4%
Other	41	28.3%

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Policies and Practices:

18. Are board members entitled to reimbursement for travel and related expenses incurred as a board member?

	Number	Percent
Yes	142	29.5%
No	324	67.2%
No answer	16	3.3%

19. Has the foundation board adopted a statement that defines what constitutes a conflict of interest for board members?

	Number	Percent
Yes	152	31.5%
No	316	65.6%
No answer	14	2.9%

Less than one-third of foundation boards have a statement defining a conflict of interest for board members with the foundation.

20. Are board members required to file disclosure statements on their assets or business affiliations?

	Number	Percent
Yes, required by law	10	2.1%
Yes, required by board policy	13	2.7%
No	451	93.6%
No answer	8	1.7%

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Less than 5 percent of foundation board members are required by state law or foundation bylaws to disclose their assets or business affiliations. As private 501(c)(3) organizations, it is not surprising that foundation board members are not required to by law to do so.

21. What kind of insurance does the foundation carry for trustees and officers?

	Number	Percent
Accident	25	5.2%
Errors and Omissions	295	61.2%
None	138	28.6%
No answer	24	5.0%

22. Is a formal orientation program provided for new foundation board members?

	Number	Percent
Yes	272	56.4%
No	203	42.1%
No answer	7	1.5%

23. Does the foundation board participate in periodic reviews of its own performance?

	Number	Percent
Yes	171	35.5%
No	300	62.2%
No answer	11	2.3%

24A. Is there a written description of the foundation board member's responsibilities?

	Number	Percent
Yes	336	69.7%
No	137	28.4%
No answer	9	1.9%

24B. Are board members provided the description prior to service on the board?

Total: 336	Number	Percent
Yes	335	99.60%
No answer	1	.04%

25. Has the foundation board adopted a formal policy on asset management and investment?

	Number	Percent	Four-year	Percent	Two-year	Percent
Yes	395	82.0%	204	90.3%	191	74.6%
No	79	16.4%	18	7.9%	61	23.8%
No answer	8	1.7%	4	1.8%	4	1.6%

More than 90 percent of four-year institution foundations have adopted a policy on asset management and investment, and just less than 75 percent of two-year institution foundations have done so. This is a significant difference and may reflect the fact that four-year foundations tend to have managed significant assets for longer periods of time.

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IV. Relationships and Processes

Relationships Among Key Players

1A. Do the governing and foundation boards hold joint meetings?

	Number	**Percent**	**Four-year**	**Percent**	**Two-year**	**Percent**
Yes	83	17.2%	25	11.1%	58	22.6%
No	391	81.1%	198	87.6%	193	75.4%
No Answer	8	1.7%	3	1.3%	5	1.9%

1B. If yes, how frequently do they occur?

		Four-year		**Two-year**	
Total: 83	**Number**	**(25)**	**Percent**	**(58)**	**Percent**
Once every three months	7	3	12.0%	4	6.9%
Once every six months	7	1	4.0%	6	10.3%
Once a year	43	13	52.0%	30	51.7%
Less than once a year	23	7	28.0%	16	27.6%
No answer	3	1	4.0%	2	3.4%

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1C. What is the format of the meetings?

Total: 83	Number	Percent	Four-year (25)	Percent	Two-year (58)	Percent
Formal business meetings	19	12.0%	5	20.0%	14	24.2%
Informal social gatherings	22	26.5%	8	32.0%	14	24.2%
Combination of both	41	49.4%	12	48.0%	29	50.0%
No answer	1	1.2%	0	-	1	1.7%

With only 17.2 percent of the respondents reporting meetings between the foundation board and the governing board (although the percentages are higher for two-year foundations), it would appear that there is either too little opportunity for such meetings or meetings are not considered essential for communications—that such communications is better done through executive or administrator levels.

2. Who serves as the primary liaison between the governing and foundation boards? (Check only one.)

	Number	Percent	Four-year	Percent	Two-year	Percent
Institution or system chief executive	211	43.8%	97	42.9%	114	44.5%
Foundation chief executive	126	26.1%	70	31.0%	56	21.9%
Designated governing board member to the foundation board	69	14.3%	24	10.6%	45	17.6%
Chief development officer (if different)	27	5.6%	12	5.3%	15	5.9%
Foundation board chair	8	1.7%	3	1.3%	5	1.9%
Designated foundation board member to the governing board	4	0.8%	1	0.4%	3	1.2%
Other	14	2.8%	10	4.4%	4	1.6%
No answer	23	3.7%	9	10.2%	14	5.7%

3A. Does the foundation chief executive attend institution or system governing board meetings?

	Number	Percent	Four-year	Percent	Two-year	Percent
Yes, by invitation	130	27.0%	63	24.6%	67	26.2%
Yes, by own choice	94	19.5%	30	11.7%	64	25.0%
Yes, by policy	92	19.1%	47	20.8%	45	17.6%
No	151	31.3%	83	36.7%	68	26.6%
No answer	15	3.1%	2	0.8%	13	5.1%

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3B. Does the foundation chief executive attend institution or system governing board development committee meetings?

	Number	Percent	Four-year	Percent	Two-year	Percent
Yes	132	27.4%	74	32.7%	58	22.7%
No	82	17.0%	43	19.0%	39	15.2%
No, because governing board does not have a development committee	247	51.2%	105	46.5%	142	55.5%
No answer	21	4.4%	4	1.8%	17	6.6%

4A. If the institution or system chief executive is *not* on the foundation board, does he or she typically attend foundation board and executive committee meetings?

	Number	Percent
Yes	151	31.3%
No	20	4.1%
No answer	311	64.5%

4B. If no, are his or her interests represented by a surrogate?

Total: 20	Number	Percent
Yes	16	80.0%
No	4	20.0%

4C. If yes, by whom?

Total: 16	Number	Percent
Vice president or director of development	7	43.8%
Executive vice president	5	31.3%
Other	4	25.0%

Institutional / Foundation Relationships:

5. On the whole, the relationship of the foundation board to the institution or system (its chief executive and board) can be plotted on the line:

1	2	3	4	5	6	7
friendly		cooperative		civil		hostile

	Number	Percent
1—Friendly	290	60.2%
2	87	18%
3—Cooperative	64	13.3%
4	18	3.7%
5—Civil	9	1.9%
6	1	0.2%
7—Hostile	2	0.4%
No answer	11	2.3%

The vast majority of foundations report a very positive relationship with the institutional or system governing board. More than 90 percent range from cooperative to friendly, even though little interaction occurs between the boards as shown in question 1.

6A. Is the institution or system governing board provided with regular reports about the foundation's work?

	Number	Percent	Four-year	Percent	Two-year	Percent
Yes	385	79.9%	182	80.5%	203	79.3%
No	89	18.5%	43	19.0%	46	18.0%
No answer	8	1.7%	1	0.4%	7	2.7%

6B. If yes, please list all that apply:

Total: 385	Number	Percent	Four-year (182)	Percent	Two-year (203)	Percent
Annual audit	84	21.8%	50	27.5%	34	16.7%
Verbal reports/meetings	77	20.0%	35	19.2%	42	23.0%
Monthly reports of development activities/ quarterly reports	58	15.0%	25	13.7%	33	16.3%
Written report/updates	44	11.4%	22	12.1%	22	10.8%
Reports of scholarships and financial statements	23	6.0%	15	8.2%	8	3.9%
College president	20	5.2%	13	7.1%	7	3.4%
Booklets/FACT books/ Newsletters	9	1.9%	4	2.2%	5	2.5%
Other	10	1.0%	4	2.2%	6	2.9%
No answer	144	37.4%	65	35.7%	78	38.4%

In keeping with the positive relationships between foundations and the host institution's governing board, nearly 80 percent of foundations provide regular reports on the foundation's work to the governing board. Only 241 foundations responded as to how they keep the governing board informed. Only 21.8 percent of those that do make regular reports to the governing board reported on the survey that they provide the governing board copies of the annual audit. The large number of "no answers" to part 6B may not reflect the full extent of reporting and communications.

7A. Does your foundation have a formal operating agreement with your institution or system administration?

	Number	Percent	Four-year	Percent	Two-year	Percent
Yes	249	51.6%	129	57.1%	120	46.9%
No	216	44.8%	91	40.1%	125	48.8%
No answer	17	3.5%	6	2.6%	11	4.3%

A large number of four-year and two-year institutionally related foundations (nearly one-half) do not have formal operating agreements with the institution or system. These high numbers signal the need for stronger formalized relationships, even if informal relationships are strong.

7B. If yes, does the agreement include the following? (Check any that apply.)

Total: 249	**Number**	**Per-cent**	**Four-year (129)**	**Per-cent**	**Two-year (120)**	**Per-cent**
Expectations on the part of the institution or system regarding the foundation's performance	99	39.6%	50	38.8%	49	40.1%
Commitment by the institution or system to the foundation's annual operating budget	110	44.0%	56	43.4%	54	45.0%
Personnel	131	52.4%	62	48.1%	69	53.5%
Provisions for shared services and equipment	156	62.4%	82	63.6%	74	61.7%
Fee-for-service provisions with the institution or system	82	32.8%	53	41.1%	29	24.2%
No answer	30	12%	15	11.6%	15	12.5%

8A. In their capacities as foundation board members, do any members participate in the following?

	Number	Percent	Four-year	Percent	Two-year	Percent
Contacting the state legislature on behalf of the institution	206	42.7%	100	44.2%	106	41.4%
Advising the chief executive	296	61.4%	159	70.4%	137	53.5%
Representing the institution to the media	97	20.1%	39	17.3%	58	22.7%
Influencing institutional or system policy	83	17.2%	57	25.2%	26	10.2%
No answer	146	30.3%	63	27.9%	83	32.4%

8B. If they do, is this coordinated with the governing board or the institution or system chief executive's office?

Total: 336	Number	Percent	Four-year (169)	Percent	Two-year (167)	Percent
Yes	255	75.9%	131	79.4%	124	74.3%
No	45	13.4%	20	11.8%	25	15.0%
No answer	36	10.7%	18	10.7%	18	10.8%

Large numbers of foundations report having active board members engaged in a number of activities on behalf of the institution, most coordinated with the governing board or president, as they should be. Contacting the state legislature is seen as a duty and priority. Many of the contacts may be made to ensure state matching funds for private giving initiatives. The extent to which "advising the chief executive" includes advice outside of regular foundation meetings and on matters other than those foundation related is not known. Overall, 336 foundations (69.7 percent) reported such activity. These numbers included 75 percent of all four-year affiliated foundations (169) and 65 percent of all two-year affiliated foundations (167).

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V. Fund-Raising Control and Participation

Total: 336	Number	Percent	Four-year	Percent	Two-year	Percent
Institution or system chief executive	370	76.8%	194	85.8%	176	68.8%
Foundation board	250	51.9%	87	38.5%	163	63.7%
Foundation executive	189	39.2%	78	34.5%	111	43.4%
Governing board	110	22.8%	38	16.8%	72	28.1%
Institution or system development committee	69	14.3%	45	19.9%	24	9.4%
No answer	9	1.9%	6	2.7%	3	1.2%

What is most telling about this response is the relatively small role institutional governing boards play in setting fund-raising priorities. It is possible that the chief executive is consulting with the governing board in making such decisions. Also of note is the large role the foundation board is playing.

1B. Does the foundation board have its own fund-raising policies that might preclude it from seeking support for institution or system fund-raising priorities?

	Number	Percent	Four-year	Percent	Two-year	Percent
Yes	31	6.4%	9	3.9%	22	8.6%
No	439	91.1%	214	94.7%	225	87.9%
No answer	12	2.5%	3	1.3%	9	3.5%

Little disagreement among foundations and institutions existed regarding this question. For those who answered yes, only 25 respondents offered an explanation—12 said the first priority was to provide scholarships; 13 simply listed "other priorities."

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2A. What percent of foundation board members participate in the foundation's fund-raising activities on behalf of the institution?

Percent of Board Members Participating	Number (of foundations)	Percent
0%	4	0.8%
1 to 30%	58	12.0%
31 to 60%	82	17.1%
61 to 90%	138	28.6%
91 to 100%	174	36.1%
No answer	26	5.4%

More than 64 percent of the foundations responding to the survey reported that 61 percent or more of their board members were engaged in the fund-raising activities of the foundation. These numbers are encouraging.

2B. In what ways do they participate?

	Number	Percent
Contribute personally	454	94.2%
Prospect identification	429	89.0%
Ask for money	387	80.3%
Provide entrée for staff and others	364	75.5%
Express appreciation to donors	329	68.3%

From the above table, the active involvement of foundation trustees in fund-raising is categorized by type of activity. More than 94 percent of responding foundations reported that members of their foundation board (some, not necessarily all) contributed personally and large numbers also opened doors for staff and personally requested money from others.

3. Approximately what percentage of each of the following groups provided personal gift support to the institution (system) in your last completed fiscal year?

Percent of foundation board members providing gift support	**Number (of foundations)**	**Percent**
0%	4	0.8%
1 to 30%	32	6.6%
31 to 60%	55	11.4%
61 to 90%	160	33.1%
91 to 100%	183	37.9%
No answer	48	10.0%

In keeping with the numbers above, 71 percent of the responding foundations report that more than 60 percent of their individual foundation board members provide gift support.

Percent of governing board members providing gift support	**Number (of foundations)**	**Percent**
0%	41	8.5%
1 to 30%	83	18.2%
31 to 60%	75	15.5%
61 to 90%	62	12.9%
91 to 100%	63	13.1%
No answer	158	32.8%

In contrast, governing board members provide far less support to the institution. Only 26 percent of the responding foundations reported that more than 60 percent of individual governing board members provide gift support. The large number of "no answers" also is telling. The numbers reflect the minimal role of politically appointed boards.

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4A. Is your institution or system conducting a campaign, or has it completed a campaign within the last five years?

	Number	Percent
Yes	280	58.1%
No	179	37.1%
No answer	23	4.8%

4B. If yes, what percentage of the campaign committee was or is foundation members, governing board members, or others?

Percent of foundation board members	Number (of foundations)	Percent
0%	1	–
1 to 30%	56	20.0%
31 to 60%	47	16.7%
61 to 90%	43	15.6%
91 to 100%	81	28.9%
No answer	52	18.6%

Percent of governing board members	Number (of foundations)	Percent
0%	20	7.1%
1 to 30%	64	22.9%
31 to 60%	18	6.4%
61 to 90%	1	–
91 to 100%	5	1.8%
No answer	172	61.4%

Percent of others	Number (of foundations)	Percent
0%	1	-
1 to 30%	36	12.9%
31 to 60%	37	13.2%
61 to 90%	29	10.4%
91 to 100%	9	3.2%
No answer	168	60.0%

The single largest "nonboard" campaign committee participants are faculty and staff, community leaders, and alumni, in that order.

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Appendix B

The exhibits in this section are included as guidance and examples for foundation directors and others who may need to create or revise certain documents related to the governance or programmatic functions of a college or university foundation. With the exception of Exhibit 1, "A Basic Checklist for Your Foundation," these exhibits are *not* intended to suggest universal application, with formats and text appropriate to all circumstances at all public institutions of higher learning. Tom Popplewell, author of Chapter 10, "Building Solid Relationships with the Host Institution," resisted the notion of providing model operating agreements as part of this work's appendices. His rationale was that the discussions that occur between the host institution and the related foundation in arriving at an agreement are perhaps more important than the agreement itself. In his estimation, communication between the two parties is critical to creating and sustaining cooperation in an atmosphere of confidence and trust.

Users of this handbook may be tempted to create their own documents either by substituting their institution's name for that of the mythical Very Superior University used in these examples or by borrowing liberally from the text provided herein. Be advised, however, that such a practice will not create the strong, effective documents that are developed only through dialogue and consensus.

The material for the various exhibits originates principally with three sources: (1) the talents of contributing author David Shufflebarger in creating the checklist (Exhibit 1), (2) the experience of this volume's editor based on more than 30 years' involvement with publicly supported foundations, and (3) actual documents currently in use by some of the more successful college and university foundations throughout the country. Exhibits originating with the second source include the bylaws (Exhibit 2), articles of incorporation (Exhibit 3), a board member position description (Exhibit 4), a listing of board responsibilities (Exhibit 5), and a conflict-of-interest policy (Exhibit 6). The bylaws and articles of incorporation are based principally on Minnesota law, where *pro bono* legal counsel was available and utilized. Of the remaining exhibits, the gift-related memorandum of understanding format (Exhibit 7) was provided by the University of New Hampshire Foundation; the investment and payout policies (Exhibit 8) are essentially and appropriately reflective of the policies of Ball State University Foundation; the basic operating agreement (Exhibit 9) is modeled somewhat on that of the University of New Hampshire Foundation, where system policy largely dictates institutional relationships with related foundations; and the comprehensive operating agreement (Exhibit 10) is an amalgam of language drawn from the operating agreements of Washington State University Foundation, Western Kentucky University Foundation, and Indiana University Foundation. Tom Popplewell provided consultation on text for items presented in his chapter that were not represented in the three used agreements.

Exhibit 1

A Basic Checklist for Your Foundation

This checklist will help a foundation conduct a quick self-examination to determine if its operations, structure, and policies satisfy general criteria. Not all items apply to all foundations, but in those situations where particular items do apply and where some operations are determined to be deficient, the checklist enables foundation officials to identify opportunities for remediation, board member education, or board action.

1. Is the foundation's incorporated status current with the secretary of state or other appropriate designated official?

   ______yes ______no ______don't know

2. Have the foundation's articles of incorporation and bylaws been reviewed in the last three years to ensure that they remain relevant to the foundation's current purpose and operations?

   ______yes ______no ______don't know

3. Do the articles of incorporation and the bylaws designate the host institution as beneficiary in the foundation's dissolution clause?

   ______yes ______no ______don't know

4. Has the foundation met all registration and reporting requirements of the state's charitable solicitation act, or is it specifically exempt? (Note: In some states, even though exempted, the foundation still must file to acquire exemption.)

   ______yes ______no ______exempt ______don't know

5. Is the foundation registered in other states where it is required to do so to solicit alumni and friends living in those states?

   ______yes ______no ______don't know

6. Does the foundation have available for inspection (1) its request to the Internal Revenue Service for tax-exempt status; (2) its resulting determination letter together with rulings related to sections 501(c)(3), 170, and 509(a) of the Internal Revenue Code; and (3) its federal tax returns (Form 990) for the past three years?
_______yes to all _______no to all _______don't know

7. If the foundation has unrelated business income (UBIT) and is subject to federal tax, has it filed Form 990T with its annual federal tax return and paid any tax due?
_______yes _______no _______does not apply

8. Are the foundation directors familiar with the requirements of the state's nonprofit corporation act?
_______yes _______no _______don't know

9. Are other state statutes regarding the conduct of nonprofit organizations available to the directors?
_______yes _______no _______don't know

10. Does the foundation have a written agreement with its host institution that defines the relationship between the two entities?
_______yes _______no _______don't know

11. Has the foundation designated legal counsel?
_______yes _______no _______don't know

12. Does the foundation carry directors' and officers' liability insurance, comprehensive general liability insurance, and a surety bond for those people handling funds?
_______yes to all _______no to all _______don't know

13. Do the foundation's bylaws include an indemnification clause?
_______yes _______no _______don't know

14. Does the foundation have a conflict-of-interest policy covering officers, directors, and staff?
_______yes _______no _______don't know

15. Is your state one of the 38 that has adopted the Uniform Management of Institutional Funds Act to define directors' responsibilities for endowment and trust fund management, and are the directors familiar with it? If your state is among the other 12, are the directors familiar with the applicable state statute(s) that define this responsibility?

_______yes _______no _______don't know

16. Does the foundation have a written policy for the investment of endowed and current funds?

_______yes _______no _______don't know

17. Does the foundation have a written spending policy for endowed funds that describes how the directors seek to preserve the purchasing power of the endowment?

_______ yes _______ no _______ don't know

18. Has the foundation adopted a mission statement? Does it have a compatible goals and objectives statement or formal business plan for the current year?

_______ yes to both _______ no to both _______ don't know

19. Have the directors adopted a written policy defining the role and responsibilities of a director, including expectations for financial support for the host institution?

_______ yes _______ no _______ don't know

20. Does the foundation have a written policy on fund-raising? Is it consistent with those of the institution and other fund-raising entities such as the alumni association or an athletic foundation?

_______ yes to both _______ no to both _______don't know

21. Does the foundation have a written policy on the confidentiality of donor records? Are all (other) foundation records subject to the state's Freedom of Information Act?

_______ yes to both _______ no to both _______ don't know

22. Do the directors adopt an annual operating budget for the foundation?

_______ yes _______ no _______don't know

23. Does the foundation have an annual audit by an independent certified public accountant? Do the financial statements conform to generally accepted accounting principles? Are the audited statements available to the general public?

_______ yes to all _______ no to all _______don't know

24. Are the directors provided with quarterly financial statements?

_______ yes _______ no _______don't know

25. Does the foundation have a written policy on the expenditure of unrestricted funds?

_______ yes _______ no _______ don't know

26. Do the foundation's bylaws provide for term limits of its directors?

_______ yes _______ no _______don't know

27. Does the foundation have a written policy covering the acceptance, valuation, and sale of gifts of securities?

_______ yes _______ no _______ don't know

28. Does the foundation have a written policy and guidelines for the acceptance of life-income gift arrangements for which it will serve as trustee?

_______ yes _______ no _______ don't know

29. If the foundation is the trustee of life-income gifts (charitable remainder trusts, gift annuities, pooled income funds, and the like), is it appropriately staffed to meet its responsibilities to the donors as well as to the Internal Revenue Service, or has the foundation engaged an agent to satisfy those responsibilities?

_______ yes ______ no _______don't know

30. Does the foundation have a written environmental risk policy that provides safeguards for the acceptance of real estate and other real property?

_______ yes _______ no _______ don't know

Exhibit 2

College or University Foundation Bylaws: Sample Format and Text

Bylaws of the Very Superior University Foundation, Incorporated

Article I: Name and Location

The corporation shall conduct its business under the names "Very Superior University Foundation" and "VSU Foundation," and its principal office shall be in the Town of Tranquillity in the State of Minnesota, at such location as the directors shall from time to time designate. The corporation shall have other offices at such places as the directors may determine from time to time.

Article II: Purpose

The Very Superior University Foundation is organized for the sole purpose of stimulating major voluntary financial support from alumni, parents, friends, corporations, foundations, and others for the benefit of Very Superior University, especially in the building of endowment and in addressing the long-term academic priorities of the university.

Article III: Fiscal Year

The fiscal year of the corporation shall be July 1 to June 30.

Article IV: Governance

The corporation shall have no fewer than 15 nor more than 27 directorships. Of that number, six shall be ex officio and shall include the president of Very Superior University, the chief staff officer of the foundation, the president of the Very Superior University alumni association, and three trustees of the university system (as selected by the board of trustees), one of whom shall be appointed to the foundation's executive committee. The remaining directors shall be nominated by a committee of the board of [foundation] directors and elected to membership by that board at each annual meeting or as interim vacancies occur. Sixty percent of the elected directors must be alumni of Very Superior University. Elected directors shall serve terms of three years, with approximately one-third of the terms expiring in any given year. Elected directors may serve three consecutive terms (nine years), and then must wait an additional year before being eligible for re-election to the board. Any number of honorary, nonvoting directors may be appointed by the board of directors.

Article V: Quorum

A majority of the directors (elected and ex officio) shall constitute a quorum for the transaction of business at all meetings of the board of directors. A quorum for the executive committee shall be a majority of that body, but shall include as present at least two of the following officers: the chair of the board, the vice chair of the board, and the chief staff officer of the foundation.

Article VI: Officers

Section 1—Chair

At the time of the annual meeting, the board of directors shall elect from its membership the chair of the board, who shall preside at all meetings of the board of directors and the executive committee. The term of office of the chair shall be one year. The chair shall appoint members of all permanent and standing committees other than the executive committee. The chair shall exercise all powers and duties customarily incident to this office.

Section 2—Vice Chair

In the absence of the chair, the vice chair shall preside at all meetings of the board of directors and the executive committee. The vice chair shall be elected in the same fashion as the chair, and the term of office shall be one year.

Section 3—Chief Staff Officer

The chief staff officer of the foundation may serve in that compensated capacity under such title as is acceptable to the foundation board and the university. This officer's term on the board shall be concurrent with the term of employment. This officer, insofar as foundation responsibilities are concerned, shall report to the chair of the foundation. The salary for this position shall be approved periodically by the board of directors.

Section 4—Secretary

The secretary shall record or cause to be recorded the minutes of each meeting of the board of directors and the executive committee, and shall keep such records on file. The secretary shall maintain the corporate seal and be responsible for the safekeeping and custody of the official records of the foundation. The secretary shall execute all documents requiring this officer's signature, and shall keep open to all members of the board of directors, at all reasonable times and on reasonable notice, the books and records of the foundation.

Section 5—Treasurer

The treasurer shall have the custody of all the money, funds, and investments of the foundation. The treasurer shall deposit on behalf of the foundation and in its name all funds of the foundation in banks or other financial institutions as the board of directors shall designate from time to time. As the investment and finance committee of the board may direct or approve, the treasurer shall invest the funds of the foundation and shall keep or cause to be kept accurate books of account of all official financial transactions. Such books are the property of the foundation and are subject to inspection by the board of directors. All receipts, vouchers, and payments made to the foundation and all checks, drafts, notes, or other official obligations for payment of money by the foundation shall be signed by the treasurer and any other foundation officer as the board may determine at its discretion.

Section 6—Other Officers

Other officers may be appointed by the board.

Section 7—Appointments

Foundation officers shall be elected at each annual meeting.

Section 8—Remuneration

With the exceptions of the chief staff officer and the treasurer, no officers or directors of the foundation shall be eligible to receive compensation.

Section 9—Surety Bond and Indemnification

All officers of the corporation and all other corporate employees having access to corporate funds shall be required to give a bond to the corporation conditioned on the faithful performance of their respective duties in such amounts and with such sureties and upon such other conditions as may be required by the board of directors from time to time.

The corporation shall indemnify directors, officers, employees, and agents of the corporation from any and all liability for their acts in their respective capacities, to the extent permitted by state law. Within the boundaries of state law, the foundation may procure insurance providing greater indemnification for all such persons.

Section 10—Signatories

All drafts, bids, proposals, agreements, securities, deeds, leases, mortgages, notes, assignments, bills of sale, certificates, applications, and other corporate legal documents and forms shall be made or signed by at least two of the following foundation officers: the chair, the chief staff officer or the treasurer, or by such other person or persons as may be required periodically by the board of directors.

Article VII: Meetings

Section 1—Regular Meetings of the Board of Directors

The board of directors shall meet at least three times each year at such times and places as the board may determine, except one scheduled meeting must be held on or near the campus of Very Superior University. The annual meeting shall be the last scheduled meeting of each fiscal year, at which time the officers of the foundation shall be elected and new directors named for seating at the next scheduled meeting. Notice of meetings shall be given to directors at least 10 days prior to the meeting date.

Section 2—Special Meetings of the Board of Directors

Special meetings of the board of directors may be held upon the call of the chair of the board, the senior staff officer, or the combined call of any three members of the board. Notice of special meetings shall be given at least 10 days prior to the meeting date unless the waiver of notice option is exercised by a majority of the board.

Section 3—Waiver of Notice

When notice is required to be given to any director or officer under these bylaws, a waiver thereof in writing, signed by the person so entitled, whether before or after the time stated therein, shall be the equivalent of giving such notice.

Section 4—Other Board Action

If several or all directors consent in writing to any action taken by the corporation, and the number of directors constitutes a quorum, such action shall be interpreted as valid corporate action, the same as if taken at a meeting of the board. The secretary shall file such consents with the minutes of the board meetings.

Article VIII: Governance Committees

Section 1—Committees Defined

The board of directors shall establish permanent committees for governance functions described in these bylaws, standing committees related to programmatic functions of the foundation, and ad hoc committees to address specific issues or situations of short duration.

Section 2—Executive Committee

The executive committee shall consist of the foundation chair, vice chair, chief staff officer, president of Very Superior University, secretary, treasurer, chairs of the nominating committee and the investment and finance committee, and one member of the university system board of trustees, whose appointment is subject to approval by the chair of the system board of trustees. In the interim between regularly scheduled board meetings, the executive committee shall exercise all the duties and powers of the board of directors with the exceptions of any action related to the Certificate of Incorporation, any amendments to these bylaws, or any modification of the provisions for dissolution of the corporation.

Section 3—Nonboard Committee Members

The board of directors may appoint non-board members as consultants or advisers with non-voting status to the permanent committees, and with voting status to standing and ad hoc committees. In no event shall the number of nonboard committee members exceed the number of board members on any board committee.

Section 4—Minutes

All board committees shall keep a record of proceedings and shall report these proceedings to the board at or before the next scheduled board meeting.

Section 5—Nominating Committee

The board shall by resolution confirm the appointment of a nominating committee of at least five board members whose duty shall be to strengthen the future of the foundation by identifying and recruiting candidates for the foundation board of directors. Further, this committee, on an annual basis, shall submit to the board of directors at least one qualified candidate for each of the elected officer positions. All nominations shall be available to the board at least 10 days before the annual meeting. In the event of member vacancy due to death, resignation, or other circumstance, the nominating committee is authorized to nominate at any time a candidate for a vacant position, but may elect not to do so ahead of the annual meeting.

Section 6—Investment and Finance Committee

The board of directors shall by resolution confirm the appointment of an investment and finance committee of at least four elected members of the board in addition to the treasurer. This committee shall be responsible for the development and execution of investment policies and procedures. It may elect an investment manager to advise with respect to the funds and investments of the foundation. The committee also shall review periodically the performance of the investment portfolio and shall authorize policies and procedures with respect to the purchase of stocks, bonds, securities, real estate, and any other properties of the foundation.

The committee also shall be responsible for assisting the board in meeting its fiduciary responsibilities with respect to the foundation's annual operating budget and the financial practices and operations related thereto. It shall present the annual operating budget to the full board for consideration and action and shall recommend to the board an independent auditing firm to conduct the official annual audit of the foundation.

Section 7—Resources Committee

The board of directors shall by resolution confirm the appointment of a resources committee of at least five members of the board whose duty shall be to develop policies and procedures germane to the pursuit and acceptance of gifts offered the foundation in support of its efforts and for the good of the university. This committee is authorized to establish a process for review of offered gifts of real property and may, in consultation with the university, accept or reject such gifts. The committee may exercise the same judgments in evaluating gifts with environmental or other sensitive implications. The committee also shall undertake the planning process for formal capital campaigns or other structured fund-raising initiatives on behalf of the university, and shall otherwise present the funding priorities of the university to the board for review and acceptance.

Section 8—Bylaws Committee

The board of directors shall by resolution confirm the appointment of a bylaws committee of at least two members of the board whose duty shall be to monitor the actions and activities of the foundation in an effort to ensure conformance with the provisions of this document. The committee also is authorized to propose amendments to the bylaws in the manner described in Article XI.

Article IX: Other Committees

Consistent with Article VIII, the board may establish standing and ad hoc committees to assist with the growth and development of the foundation. Such committees may address such special needs of the foundation as promotion and publicity, special events, and gift stewardship functions. Committees also may be established to address short-term, special-project initiatives or other temporary matters of interest to the board.

Article X: Dissolution

In the event of the dissolution of the corporation (i.e., the foundation), all of its property—real, personal, and mixed—of whatever nature and wheresoever located, shall be transferred to the ownership of Very Superior University or its successor institution, or, in the event of its demise, to some other educational institution or non-profit corporation organized for educational purposes and exempt under section 501(c)(3) of the Internal Revenue Code of 1954. Subject to all of the limitations and uses by which it is held by this corporation at the time of its dissolution, none of the property shall ever inure to the benefit of any officer or member of the corporation or to any other individual.

Article XI: Procedure for Amending

Any of these bylaws may be altered, amended, or repealed; additional bylaws may be adopted by the board of directors at any annual meeting or any special meeting called for such a purpose, provided such action is preceded by written notice as defined in Article VII. For purposes of amending these bylaws, the actions of two-thirds of the directors present at a meeting in which a quorum is confirmed shall constitute an action of the foundation board of directors. Any such action that materially alters the provisions of the Articles of Incorporation shall not take effect until approval is secured for the changes from the secretary of state.

Article XII: Corporate Seal

All official agreements and other legal documents of the foundation shall carry the imprint of the corporate seal, as displayed below. The seal shall remain in the custody of the foundation secretary.

In affixing our signatures below, we hereby certify that on this, the _____ day of ____, 19__, at a meeting held on the campus of Very Superior University at which a quorum was present and voting, these bylaws of the Very Superior University Foundation were adopted unanimously.

A TRUE RECORD. ATTEST:

________________________________ Chair

________________________________ Secretary

Exhibit 3

College or University Foundation Articles of Incorporation: Sample Format and Text

Articles of Incorporation of the Very Superior University Foundation, Incorporated

Be it known by all persons present:
The undersigned of legal age do associate themselves together for the purpose of forming a corporation under all applicable laws of the State of Minnesota, with all the rights, privileges, and immunities of a corporation organized for educational and scientific purposes, without capital stock, and from which no private pecuniary profit is to be derived, and do adopt the following Articles of Incorporation.

Article I: Name
The name of the corporation shall be the Very Superior University Foundation, Incorporated.

Article II: Exempt Status
The corporation shall conduct its business as an organization exempt from taxation under section 501(c)(3) of the Internal Revenue Code of 1954, and as a publicly supported organization eligible to receive tax-deductible gifts under section 170 of the Internal Revenue Code.

Article III: Purpose
The Very Superior University Foundation, Inc., is organized for the sole purpose of stimulating major voluntary financial support from alumni, parents, friends, corporations, foundations, and others for the benefit of Very Superior University, especially in the building of endowment and in addressing the long-term academic priorities of the university. The corporation shall be responsible for the identification of potential donors; the nurturing of relationships between such persons and the university; the solicitation of gifts of cash, securities, real and intellectual property, and other forms of direct support; and the acknowledgment of gifts and all ongoing responsibilities related to such gifts.

Article IV: Principal Office

The principal office of the corporation shall be in the Town of Tranquillity, Benevolent County, Minnesota, with the corporation retaining the right to hold meetings and otherwise conduct business at other locations as the board of directors may designate periodically.

Article V: Names and Addresses of Board Members

The following persons will serve as the first board of directors of the corporation:

Name	Address

Article VI: Election of Directors

The directors of the corporation shall be elected at each annual meeting in conformance with the bylaws of the Very Superior University Foundation, Inc.

Article VII: Income and Distribution

The corporation shall be a nonprofit organization without capital stock and from which no private pecuniary profits shall be derived by any officer, director, or other person, except for specific services rendered as described in the bylaws.

Article VIII: Operating Authority

The corporation shall derive its operating authority from all of the applicable Revised Statutes Annotated of the State of Minnesota.

Article IX: Prohibited Activities

The corporation shall not use any significant part of its resources to influence legislation or to advance the campaign of anyone seeking election to public office.

Article X: Procedure to Amend

The Articles of Incorporation may be altered or amended by an affirmative vote of two-thirds of any quorum of the board of directors at any time that the board, in its discretion, may determine by signing, executing, acknowledging, and recording such change in the manner required by law.

Article XI: Address to Notice
The registered address of the corporation shall be Very Superior University Foundation, Inc., Office of Institutional Advancement, Very Superior University, 87 Ethical Lane, Tranquillity, Minnesota.

Article XII: Distribution on Dissolution
In the event of the dissolution of the corporation, all of its property—real, personal, and mixed—of whatever nature and wheresoever located, shall be transferred to the ownership of Very Superior University or its successor institution, or, in the event of the university's demise, some other education institution or nonprofit corporation organized for educational purposes under section 501(c)(3) of the Internal Revenue Code of 1954. Subject to all of the limitations and uses by which it is held by this corporation at the time of its dissolution, none of the property shall ever inure to the benefit of any officer or member of the corporation or to any other individual.

The signatures and addresses of the incorporators, all above the age of majority, are as follows:

Signature	**Address**

State of Minnesota; County of Benevolence. The foregoing was acknowledged by me on this ____ day of ____, 19__.

____
Notary Public

Affix Stamp or Seal

Exhibit 4

College or University Foundation Board Member:

Sample Volunteer Position Description
Postition Description:
Director, Very Superior University Foundation

Overview

The Very Superior University Foundation was incorporated in 19__ for the sole purpose of stimulating significant private support for the programs, special needs, and other enhancements of Very Superior University. In conformance with that purpose, individuals are elected to serve voluntarily as members of the foundation board of directors. Each selection so made anticipates that each director's personal commitment and influence with others will serve to ensure the growth and success of the foundation and thereby augment the quality and reputation of the university.

Qualifications

Any person whose name is brought before the foundation board of directors for possible election to that 27-member body shall be deemed qualified if the nominee holds the following qualifications:

1. a strong belief in the viability and value of publicly supported higher education as a major force in meeting the critical needs of society;

2. a corollary belief that Very Superior University is an integral component of public higher education and a significant asset to the state, the region, and the country as a whole;

3. a general concurrence with the mission, goals, and objectives of the university as developed and articulated by the president and approved by the trustees of the Very Superior University system;

4. a firm conviction that publicly supported institutions of higher education are appropriate objects of personal philanthropy and other forms of private support; and

5. a willingness to improve the quality of the university through (a) voluntary participation at a level commensurate with membership on an active foundation board, (b) personal financial support of the university through the foundation at a level commensurate with capacity and interest, and (c) a commitment to work with the foundation staff in securing financial support from others.

Specific Responsibilities

A director of the Very Superior University Foundation agrees to the following:

1. hold as a high priority attendance at the three scheduled foundation board meetings each year;

2. serve actively on one board committee or more as assigned by the board chair;

3. be alert for opportunities to promote the purpose, goals, and objectives of the foundation and to capitalize on such opportunities, especially where the potential exists for support of the university and its programs;

4. provide annual, special, and capital support for the university at levels that will inspire others to emulate that support; and

5. be available on reasonable demand to work with staff to advance the mission of the foundation by (a) providing advice and counsel on the general management, operations, and program activities of the foundation; (b) providing or otherwise securing introductions to persons who, by virtue of personal wealth or other resources under their management or control, have potential for new or increased support of the university; and (c) participating in the foundation's efforts to identify, cultivate, and solicit potential donors and in providing stewardship for gifts received.

Term of Office

Directors of the foundation are elected to three-year terms. Three consecutive terms may be served at the discretion of the board of directors. A hiatus of one year is required following the third term before possible reelection to the board.

Reciprocal Commitment

The success of the Very Superior University Foundation in securing support from alumni, parents, friends, corporations, and foundations is vested in the commitment of the volunteer board of directors. In recognition of the unique demands on these volunteers, all elected directors are assured of a strong and reciprocal commitment from the foundation staff to provide the information and expertise necessary for implementation of or follow through on initiatives stimulated through voluntary effort.

Exhibit 5

College or University Foundation Board of Directors Responsibilities:

Sample Guidelines

Very Superior University Foundation Board Responsibilities

Participation in the collective responsibilities of the Very Superior University Foundation board of directors includes, but is not limited to, the following:

1. formulating the foundation's philosophy and mission;

2. drafting and approving major policies;

3. evaluating management's performance against stipulated goals;

4. constructing and approving long-range plans;

5. reviewing and adopting annual strategic business plans;

6. assessing changing environments and approving adjustments in foundation strategies;

7. monitoring, advising, and supporting the foundation's senior management;

8. collaborating with the university president in setting the salary of the foundation's chief staff officer (if the officer serves concurrently as an employee of the university and the foundation);

9. overseeing the performance of funds under the control of the foundation;

10. conducting self-evaluations of the board's performance on a regular basis;

11. reviewing the foundation's financial condition and selecting an independent auditor; and

12. recruiting and electing members of the foundation board.

In addition, members of the board agree to maintain familiarity with conditions affecting the university and the foundation; participate in major university and foundation events, especially those held for the recognition of benefactors; and assume leadership positions in any major, structured fundraising initiative.

Time Commitment

Board meetings are held three times per year, with at least one meeting scheduled on the university campus. Whenever practical (and with the possible exception of executive committee meetings), committee meetings are held concurrently with the board meetings. Ad hoc committee meetings and other special assignments will be scheduled at the convenience of the directors involved, with timely notice. Directors other than officers should plan on an annual time commitment of approximately 12 days.

Orientation and Training

Most foundation directors will be familiar with the university through their previous involvement in leadership activities. Special orientation sessions will be held for new board members; ongoing education programs will be provided concurrent with board meetings; and the university president will, as a regular part of each meeting's agenda, update the foundation board on the activities and progress of the university.

Exhibit 6

Foundation Director Conflict of Interest and Self-Dealing:

Sample Policy

VSU Foundation Conflict-of-Interest Policy

High standards, ethical behavior, personal integrity, and impartiality are inherent to the reputation and ultimate success of the Very Superior University Foundation. In keeping with these norms, foundation officers, directors, and staff must refrain from engaging in any behavior that might be construed as self-dealing or in conflict with the mission, goals, and fundamental purpose of the foundation. Examples of such behavior include the following:

1. serving on boards of organizations that are in direct programmatic competition with the foundation;

2. using the equipment or other resources of the foundation to secure outside personal gain;

3. citing participation in the foundation to advance personal, political, or profit-motivated activities;

4. marketing services or products to the foundation on a non-competitive basis;

5. disclosing to outside parties plans and other information on the foundation when such information is not readily available to the general public;

6. leveraging involvement with the foundation to secure favorable rates, discounts, or other preferential treatment; and

7. profiting materially through counseling or other instructional activities predicated on skills and knowledge gained through association with the foundation.

The foundation acknowledges that the appearance of conflict of interest does not always imply actual conflict. Policy requires, therefore, that all potential conflicts of interest—including memberships in or affiliations with other nonprofit or proprietary organizations, business affiliations with possible vendor implications, elected office at any level, and involvement in any other activity that might be construed as in conflict with the mission, goals, and purpose of the foundation—shall be presented in writing to the chair of the foundation board and the foundation's chief staff officer for purposes of review and possible remedial action. Such action may include holding the information on file, informing the board of the appearance of conflict of interest, or requiring the director to either cease and desist the activity or to relinquish foundation directorship.

Affirmation

As a duly elected or ex officio member of the Very Superior University Foundation, I hereby certify that I have kept a copy of this policy statement on conflict of interest for my files and

_____ that, to the best of my knowledge, no circumstance exists with me or my immediate family that might be construed as a conflict of interest with my membership on the Very Superior University Foundation Board of Directors.

or

_____ that personal or immediate family circumstances currently[1] exist that possibly might be construed as a conflict of interest with my foundation board membership. The circumstances are described below and are submitted to the foundation's leadership for review and recommendation.

Signed:______________________ Date:______________________

- -

Possible Conflict of Interest Disclosure:

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[1] Policy also requires disclosure of future possible conflicts of interest as such situations materialize and not later than 90 days from the circumstance's advent.

Exhibit 7

Gift-Related Memorandum of Understanding:

Sample Format and Text

Memorandum of Understanding Between the Very Superior University Foundation and Edwin and Mary Zerker

I. The Edwin T. and Mary F. Zerker Endowed Fund is established at the Very Superior University Foundation with an initial gift of $150,000 from Edwin and Mary Zerker. The Zerkers' intend that the fund be a complement to the Professor Elroy L. Dant Memorial Fund, established in 1961 to recognize Dr. Dant's contributions in teaching and research in the evolution of the English language as reflected in the writings of American authors of the 19th century.

Mr. and Mrs. Zerker, members of Very Superior University Class of 1945, developed a deep and lasting appreciation of the writings of Samuel Clemens, Nathaniel Hawthorne, and Herman Melville as a direct result of their interaction with Dr. Dant. Both were awarded undergraduate degrees in English. Mr. Zerker went on to pursue a graduate degree in language studies at Yale University, but he abandoned the effort when a growing family made continuation financially impossible. He taught high school English for 31 years in the Tranquillity (Minnesota) Memorial High School, retiring in 1977, at which time he and his wife pursued successful careers in writing and illustrating children's books. The Zerkers have five children and seven grandchildren.

II. All current and subsequent gifts to the Edwin T. and Mary F. Zerker Endowed Fund, originating from any source, will be deposited with the endowment fund of the Very Superior University Foundation, Inc.

III. All moneys received for this fund become the absolute property of the foundation. The foundation's pooled investments are managed at the sole discretion of the foundation board of directors, which establishes investment and payout policies and sets annual endowment management fees. Payout from the fund's assets during a fiscal year may not be available for expenditures until the following year.

IV. The purpose of the fund is to provide financial assistance to undergraduate and graduate students at the university who are majoring in English. Preference will be given to students with a major or concentration in 19th century American authors. Awards from the fund will be based on merit. Financial need may be a consideration in selecting awardees.

V. The fund will be administered by the chair of the Department of English (or the department's successor organization). All awards offered as scholarships will be made in keeping with the financial-aid policies and practices of Very Superior University. Awards made for undergraduate and graduate research activities and special projects will be subject to the approval of the dean of the College of Liberal Arts or the equivalent administrator.

VI. Recipients of the Edwin T. and Mary F. Zerker Award will be made aware of the source of the aid. The name and a brief biography of each recipient will be provided to Mr. and Mrs. Zerker (or to another person or persons they may designate) by the chair of the Department of English.

VII. If, at some future date, the purpose for which this fund was established is no longer available or practical, the directors of the foundation are authorized to amend the terms of this agreement to an alternative, related purpose.

We the undersigned have read this Memorandum of Understanding, and on behalf of our respective intentions and interests, our signatures below confirm our agreement with its terms.

____________________ Date: ______________
Edwin T. Zerker

____________________ Date: ______________
Affix Foundation Seal Mary F. Zerker

____________________ Date: ______________
Signature for the Foundation

Exhibit 8

College or University Foundation Investment and Payout Policies:

Sample Format and Text

VSU Foundation Policy on Investments

The mission and purpose of the Very Superior University Foundation, Inc., are best served over the long term through a flow of interest income and an expanding flow of dividends and capital gains. Achieving these desired ends will help preserve the current purchasing power originating with the foundation's invested funds, and it will not place at risk the principal value of those funds. The overriding investment objective is to earn a real total rate of return (interest and dividend income, plus realized and unrealized appreciation expressed as a percentage of market value, both adjusted for inflation) averaging 5.5 percent to 6.0 percent per annum, measured over a three-year to five-year period.

Policies. The pursuit of the return objective shall be guided by the following policies:

1. The diversification of assets will help ensure that adverse, unanticipated results from a security class will not have an excessive detrimental impact on the entire portfolio.

2. Asset classes and ranges considered appropriate for investment of the foundation's assets are to be determined by the investment and finance committee, taking into consideration the investment guidelines below.

3. Investment management may be delegated to managers or specialists within a class. The foundation will continue the policy that—except for established guidelines, social responsibility restrictions as adopted by the foundation, and unusual circumstances that may from time to time be brought to the attention of the board by the investment and finance committee—no restrictions will be placed on the selection of individual investments by the foundation's selected investment managers.

Investment Guidelines for Specific Asset Classes. The decisions of the investment and finance committee shall be guided by the following criteria:

1. Equities—defined as common stock, convertible preferred stock, convertible bonds, and convertible stock—shall represent 20 percent to 65 percent of the total fund assets, subject to the following constraints:

(a) equity investments in any one company shall not exceed 5 percent of the equity portfolio;

(b) investments in equities of any one company shall not exceed 5 percent of that company's equity outstanding; and

(c) investments in any one industry shall not exceed 20 percent of the market value of the equity portfolio.

2. Fixed-Income Securities—defined as investments, with maturities greater than one year, that pay a fixed rate of return (this usually refers to government, corporate, or municipal bonds, which pay a fixed rate of interest until the bonds mature; and to preferred stock paying a fixed dividend) shall represent 30 percent to 75 percent of the total fund assets, subject to the following constraints:

(a) fixed-income securities shall have a rating of "A" or better (or the equivalent as defined by Standard & Poor's or Moody's);

(b) corporate bonds shall be diversified by user type (for example, industrial, utility, financial, or telephone issues);

(c) investments in non-dollar denomination securities are not permitted;

(d) no more than 1 percent of the outstanding debt of any one issuer, with the exception of the U.S. government or government agencies, may be owned in the fixed-income portfolio (companies must have a net worth of at least $10 million);

(e) investment in any one security shall not exceed 5 percent of the total fund at market value (portfolio managers shall interpret this to mean no more than 5 percent of *their* portfolio); and

(f) private placements, purchases on margin, short sales, and interest-rate futures contracts are not permitted.

3. Cash—defined as maturities shorter than one year (this includes cash, U.S. government and agency obligations, commercial paper rated "A1" or "A2" by Standard & Poor's or "P1" or "P2" by Moody's, certificates of deposit issued by quality U.S. banks, custodial banks' short-term reserve funds, and no-load money market mutual funds with average maturities not exceeding 90 days—shall represent up to 25 percent of the total fund assets held.

Performance. The foundation's investment performance shall be measured, using a three-year moving average, against the following benchmarks:

1. an absolute return objective, which will equal the gross national product price deflator plus 5.5 percent, compounded annually;

2. an unmanaged market index of 40 percent Standard & Poor's 500 Index and 60 percent Shearson Lehman Hutton Intermediate Government/Corporate Bond Index; and

3. the top half of the DeMarche 40/60 Balanced Fund Universe or other similar database.

Performance Review. In consideration of the rapid changes within capital markets and in investment guideline strategies and techniques, the investment guidelines shall be reviewed periodically by the foundation's investment and finance committee. Exceptions to the investment guidelines may be made at any time by the investment and finance committee, with the provision that the exceptions be made known to the board of directors no later than the next scheduled board meeting.

Adopted by the foundation board of directors on February 2, 1982

Amended as presented on September 30, 1992

VSU Foundation Policy on Endowment Payout

Consistent with the overriding intent to encourage the growth of the foundation's assets through reinvestment of a portion of the annual earnings and to provide support for university priorities, projects, and programs at a level consistent with the intentions of the donors, the initial annual payout policy shall be 5 percent of the current market value of the foundation's assets. The payout rate shall be reviewed periodically and at least annually.

Adopted by the foundation board of directors on February 2, 1982

Amended as presented on June 14, 1995

Exhibit 9

Foundation/Institution Basic Operating Agreement: Sample Format and Text

An Agreement between Very Superior University and the Very Superior University Foundation

WHEREAS the Very Superior University Foundation is organized under the terms of and in compliance with the Very Superior University System Policy on Affiliated Foundations; and

WHEREAS the aforesaid policy sets forth the requirements for the relationships between the two entities, including but not limited to fiscal operations, fund-raising coordination, communications, public relations, reporting, and dissolution; and

WHEREAS the system board of trustees and the president of the university believe that the foundation provides under contract valuable service to the university, especially for purposes of building endowment and addressing through private support the long-term goals and objectives of the university;

NOW, THEREFORE, in consideration of the premises, the university system policy and the bylaws of the foundation, Very Superior University and the Very Superior University Foundation, Incorporated, enter into this agreement as follows:

1. The annual effective date of this agreement shall coincide with the first day of the foundation's fiscal year.

2. The foundation board of directors will adopt specific goals and performance objectives annually for the corporation, consonant with university-stipulated priorities and supporting budgets. The university accepts these goals, objectives, and budgets subject to the approval of the university system board of trustees.

3. The university agrees to provide office space, utilities (other than telephone), payroll, accounting, and purchasing services. It also agrees to cover a significant portion of the foundation's annual operating budget (such sum to be agreed upon initially by the university president and the foundation chair).

Subject only to provisions for termination as hereinafter set forth, the initial term of this agreement shall be from July 1, 1981 to June 30, 1982. Thereafter this agreement shall be subject to annual review and approval by the president of the university, who shall make known any objections or recommended changes no later than 30 days prior to the current expiration date. Under such given notice, the agreement will continue on a month-to-month basis until accord is reached by the parties or the agreement is terminated as provided herein. If no changes are recommended, the terms of this agreement shall be extended automatically without further action by the parties for the ensuing 12-month period. Such provisions notwithstanding, either party may terminate this agreement upon 90 days' prior written notice to the other party.

IN WITNESS WHEREOF, the university and the foundation have executed this agreement, effective July 1, 1995.

President, Very Superior University

Chair, Very Superior University Foundation

Secretary, Very Superior University Foundation

Exhibit 10

Foundation/Institution Comprehensive Operating Agreement: Sample Format and Text

An Agreement between the Very Superior University and the Very Superior University Foundation

WHEREAS the Very Superior University Foundation was organized and incorporated in 1981 for the "sole purpose of stimulating major voluntary private support from alumni, parents, friends, corporations, foundations, and others, to the benefit of Very Superior University; and

WHEREAS the foundation aspires to assist the university "in the building of endowment and in addressing [through financial support] the long-term academic priorities of the university; and

WHEREAS according to its Articles of Incorporation, the foundation is responsible for the identification of potential donors; the nurturing of the relationships of such persons with the university; the solicitation of cash, securities, real and intellectual property, and other forms of direct support [for the university and its programs]; and the acknowledging of gifts and all ongoing responsibilities related to such gifts;" and

WHEREAS the foundation, in connection with its fund-raising and asset management activities, retains personnel experienced in the planning for and management of private contributions and works with the university to assist and advise in such activities; and

WHEREAS the university desires to accept such offers of service by the foundation, believing them to be in the best interests of the university; and

WHEREAS the university has the authority to enter into such contracts as the board of trustees deems essential to university purposes;

NOW, THEREFORE, in consideration of the premises, mutual covenants, and agreements contained herein, the foundation and the university agree as follows:

1. University Representation on the Foundation Board of Directors. The president of the university shall be seated as an ex officio, voting member of the foundation board of directors. The university's chief financial officer shall be seated as an ex officio, nonvoting member, except as that person shall hold a seat on the foundation's investment and finance committee and shall vote on committee actions in that capacity. These two positions shall be in addition to the provision for three members of the university's board of trustees to serve as ex officio, voting members of the foundation board.

2. Use of the University Name. The foundation is granted the use of the name Very Superior University Foundation and VSU Foundation, but the foundation shall operate under its own seal and logotype and shall not use the university seal or other identifying marks in the promotion of its business and activities.

3. Termination of the Foundation. In the event that the foundation ceases to operate for any reason, all of the foundation's assets shall accrue to the university for its exclusive purposes as described in Article X of the foundation's bylaws.

4. Foundation Management of Unrestricted Funds. Any gift, grant, conveyance, devise, and bequest received by the foundation, the principal and income of which has not been designated for a special use by the donor or testator, shall be managed in accordance with the following procedures:

a. While the foundation is authorized to commingle for investment purposes undesignated assets with other funds for designated uses, the foundation shall maintain a separate accounting of undesignated funds received and gains, profits, and losses resulting from said investments.

b. The foundation is entitled to "capture" a certain, mutually agreed-upon percentage of undesignated gift revenues and related income as an offset to its annual operating expenses as outlined in Section E. Following the close of the foundation's fiscal year and not later than October 31, the foundation shall notify the university of any amount of undesignated funds available for distribution in that current year. The university, through its own devices and procedures, shall then provide the foundation with a detailed listing of authorized allocations for those funds, including discretionary support of the office of the university president (see Item 8f).

5. Funding for Foundation Operations. The university recognizes that the foundation has made provision for underwriting a portion of its annual budget through assessing of fees on managed endowment, retaining of short-term interest income on deposited current-use funds any payout accounts, and through procuring a limited number of grants for administrative purposes. The university also recognizes that it has an obligation to underwrite or otherwise compensate for a reasonable portion of the foundation's annual operating budget in consideration of services provided to the university by the foundation. Therefore, the university's annual contribution to foundation operations will be structured as follows:

a. The university agrees that 25 percent of all unrestricted gift revenues and related income shall accrue to the foundation for administrative purposes.

b. The university agrees to negotiate on an annual basis a general fee for services to be rendered, and to deposit that sum in a university operating account into which the foundation also shall deposit a portion of its general administration funds (see Item 6b). The university's share shall vary from year to year, but in no event will that share be greater than 50 percent of the total foundation operating budget, and it may be a lesser amount. The sum negotiated for any given year and the corresponding total operating budget of the foundation shall be regarded as addenda to this agreement.

c. In addition to direct budgetary support, the university shall provide the foundation with certain amenities and services as outlined in Section 6.

6. Use of University Personnel and Facilities. In view of foundation needs that may be readily met by the university through use of its trained personnel and available facilities, the university agrees, during the term of this agreement, to do the following:

a. provide at no cost offices and utilities adequate for the performance of the services of the foundation;

b. provide at no cost payroll services, including the allocation of related benefits;

c. provide at no cost full accounting services, for the foundation, but the university shall have no liability or responsibility for the accuracy of financial information supplied by the foundation;

d. provide at no cost technology support services as well as online access to such university files as are relevant to the business and purpose of the foundation; and

e. provide at nominal rates (where applicable) access for the foundation to the university's auxiliary services, including printing, mailing, audio-visual, duplicating, events scheduling, and related facilities.

7. Access to the Foundation Records by University Personnel. The university president shall upon reasonable notice have access to the records of the foundation. The president may designate one additional person (possibly the chief financial officer) to have similar access. The foundation agrees generally to hold open its books for general public inspection, again upon reasonable notice, with the exceptions of information related to the personal lives of donors and prospective donors, and information originating with gift files.

8. General Gifts Funds Administration. During the term of this agreement, the foundation—acting as an independent contractor, not as an agent, of the university—shall be responsible for and on behalf of the university all private fund-raising efforts and for the management of funds that originate with those activities. Foundation fund management services shall include the following:

a. Distributions from the designated endowment funds, at the payout rate established by the foundation board of directors, will be transferred to the university's accounts at the beginning of each quarter or semi-annually, depending on the nature of the purpose to be funded. The foundation at its discretion may create a schedule of payments for a program or project.

b. Distributions of restricted current-use funds will be made on an on-demand basis following notification to the respective university department of the availability of the funds, but not more frequently than monthly for any particular program or other purpose.

c. Distributions of unrestricted funds shall be made in a fashion identical to that described in Item 8b, with the exception of funds available for the president's discretionary account.

d. The foundation will provide the university, through the university's chief financial officer, a monthly accounting of all fund transfers.

e. The foundation shall be the repository for all current and future endowment gifts to the benefit of the university (unless the donor specifies otherwise). The management of these funds, including investment strategies and payout rates, is the prerogative of the foundation board of directors.

f. The president of the university will present to the foundation on an annual basis a budget for the use of any portion of unrestricted dollars allocated to the president's discretionary fund. The budget may be somewhat generic in nature (faculty projects, faculty recognition, student initiatives, travel, entertainment, equipment, and the like) but should reflect the relative percentages of that budget for each purpose. The foundation board of directors or the executive committee will review the submitted budget and act on it accordingly. Upon approval, the foundation will transfer to the president's discretionary fund the entire authorized sum for the year. At the close of the year, the president will provide the foundation an accounting of expenditures made through the discretionary fund.

g. Other than funds provided through endowed faculty chairs or funded professorships, no salary supplements for university administrators, faculty, and staff will be underwritten by the foundation. The president may, however, provide for such use of undesignated funds through the discretionary fund budget described in 8f.

h. The foundation is authorized to accept restricted gifts on behalf of the university. The university agrees through the office of the president to provide the foundation annually with a list of private gift funding priorities. The foundation will then pursue funding for the priorities on the basis of funding realities. The foundation agrees not to solicit or accept gifts for any use specified by a donor that is inconsistent with the university's mission, goals, or objectives. When a question exists as to the acceptability of an offered gift, the foundation's gift acceptance committee will confer with the university president before directing a response to the donor. In any event, the ultimate prerogative for the acceptance of any gift by the university rests with the board of trustees.

i. Other than for payment of its general operating expenses and equipment and furnishings, the foundation shall make no direct payments to vendors or service providers on behalf of the university and its staff.

9. Foundation Audit. The foundation will provide the university with a copy of its annual financial statements audited by an independent public accounting firm selected by the foundation board of directors.

10. Reporting to the Institution. On an annual basis, the foundation will provide the university with (a) an annual report on its activities including a compendium of donors; (b) a copy of current policies on investment and payout (if altered from the prior year); and (c) a statement confirming that all gifts made to the foundation during the prior year were appropriately acknowledged. In addition, interim reports will be available to designated university personnel, and the foundation shall provide such other schedules, records, and data as may be reasonably requested by the university.

11. Coordination of Fund-Raising. The university shall cooperate with the foundation in the development of its fund-raising programs, including providing information, data, plans, speakers, facilities for meetings on the university campus, and such other materials and services that may reasonably be necessary for the successful conduct of such programs and capital campaigns. In return, the foundation will do the following:

a. coordinate its annual giving program with the university's office of alumni affairs;

b. coordinate all special fund-raising projects with the university;

c. provide expertise, assistance, and training for the university's administration, faculty, and staff for development and fund-raising tasks;

d. conduct its public relations and publications program in coordination with the university's office of public affairs; and

e. maintain a well-coordinated donor relations program in an effort to minimize overlap and over-solicitation of current and prospective donors.

12. Coordination with the University's Office of Financial Affairs. In addition to the relationship described in Item 1 of this agreement, the foundation shall provide the university's office of financial affairs with any and all financial reports otherwise provided to the foundation's board of directors and the board's investment and finance committee. The foundation chief staff officer will meet at least quarterly with the university's chief financial officer to discuss matters related to interactive financial arrangements and the ongoing efficiencies of procedures in place for the timely transfers of gift revenues to the university. The foundation's chief staff officer also shall be available on reasonable request to meet with the financial affairs staff to report on the condition of the foundation and the scope and array of foundation financial activities.

This agreement is automatically renewable annually unless either the university or the foundation gives notice within 30 days of the close of the foundation's fiscal year that a necessity exists for review or amendment. In any event, the agreement is subject to formal review by the parties at any three-year interval following the last date of review or change.

This agreement may be terminated by either the university or the foundation upon written notice at least 60 days in advance.

IN WITNESS WHEREOF, this agreement is first executed on behalf of the Very Superior University and the Very Superior University Foundation on this the 15th of June, 1981, and on the successor date, as amended, on June 16, 1995.

FOR THE BOARD OF TRUSTEES:

FOR THE FOUNDATION:

FOR THE UNIVERSITY:

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